

## **CABINET MEETING –12 OCTOBER 2021**

### **EXECUTIVE SUMMARY SHEET – PART I**

**Title of Report:**

Capital Programme Second Review 2021/2022 (including Treasury Management)

**Author(s):**

Executive Director of Corporate Services

**Purpose of Report:**

This report details:

- the outcome of the Second Capital Review for 2021/2022; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2021/2022.

**Description of Decision:**

Cabinet is recommended to:

- In respect of the second capital review for 2021/2022 to approve the inclusion of additional schemes or variations to existing schemes for 2021/2022 detailed at Appendix A, as a variation to the Capital Programme; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the progress in implementing the 2021/2022 Treasury Management Strategy and Prudential Indicators.

**Is the decision consistent with the Budget/Policy Framework?** Yes

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

As included in the Council's constitution, Cabinet is required to exercise control over capital spend and resources and receives quarterly reports to support this. This report notes the inclusion of additional capital schemes since approval by Cabinet on 13<sup>th</sup> July 2021.

Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2021/2022, which is in line with the approved Treasury Management Policies.

**Alternative options to be considered and recommended to be rejected:**

No alternative options are proposed in relation to the outcome of the second capital review or the progress with implementing the Treasury Management Borrowing and Investment Strategy for 2021/2022.

**Impacts analysed:**

**Equality** ☒ **Privacy** ☒ **Sustainability** ☒ **Crime and Disorder** ☒

**Is the Decision consistent with the Council's Co-Operative Values?** Yes

**Is this a "Key Decision" as defined in the Constitution?** Yes -  
additional capital spending detailed at Appendix B estimated to cost above £250,000.

**Is it included in the 28 Day Notice of Decisions?** Yes

## **CABINET – 12 OCTOBER 2021**

### **CAPITAL PROGRAMME SECOND REVIEW 2021/2022 (INCLUDING TREASURY MANAGEMENT)**

#### **Report of the Executive Director of Corporate Services**

#### **1. Purpose of Report**

##### **1.1 This report details:**

- the outcome of the Second Capital Review for 2021/2022; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2021/2022.

#### **2. Description of Decision:**

##### **2.1 Cabinet is recommended to:**

- In respect of the Second Capital Review for 2021/2022 to approve the inclusion of additional schemes or variations to existing schemes for 2021/2022 detailed at Appendix A, as a variation to the Capital Programme; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the progress in implementing the 2021/2022 Treasury Management Strategy and Prudential Indicators.

#### **3. Introduction**

- 3.1 The Capital Programme changes during the year as notifications of additional schemes and resourcing are received and phasing of schemes is reviewed. Variations to the 2021/2022 capital programme, since the 2021/2022 Capital First Review report to Cabinet on 13<sup>th</sup> July 2021, are shown in section 4 of this report.
- 3.2 Performance in implementing the Treasury Management Strategy and adhering to the agreed Prudential Indicators is detailed in section 5 along with confirmation that the Council is operating within its agreed borrowing limits.

#### **4. Capital Programme Second Review 2021/2022**

- 4.1 Since the Capital Programme was reported to Cabinet on 13<sup>th</sup> July 2021, there have been changes to the 2021/2022 Capital Programme both in terms of expenditure and resourcing. During the second quarter of 2021/2022 further reprofiling and other adjustments have been identified decreasing the Capital Programme in 2021/2022 by £19.342m from £277.298m to £257.956m. This is summarised below:
- Reprofiled expenditure of £20.250m from 2021/2022 into future years. The primary reasons for this reprofiling relate to external influences outside of the Council's control, including as a result of impacts from Covid-19, or the realignment of projects to ensure best value is achieved; and
  - Additional schemes and scheme variations approved since the Capital Programme was last reported, leading to a net increase of £0.908m in 2021/2022.

4.2 Appendix A sets out the detail of the above changes to expenditure and resources for 2021/2022.

4.3 The Capital Programme delivery has been impacted by the Covid-19 pandemic and the associated national lockdowns and localised restrictions since March 2020. The Capital Programme First Capital Review for 2021/2022 reported to Cabinet 13<sup>th</sup> July 2021 advised that industry commentators are indicating that uncertainties continue with upward cost pressures remaining on construction contracts exacerbated by global supply issues with raw materials (both availability and the timing of supplies) alongside labour cost pressures, and that this may manifest itself in increased costs and / or projects being delayed. As set out in Appendix A, the tendered price for the Hetton Primary School New Build has been impacted by the above but can be funded by available school capital grants within the current capital programme. There is no confirmation, as yet, that other/further increases will be unaffordable against current approved capital programme scheme costs, but this will be monitored and reported to Cabinet as necessary, following receipt of further tender prices.

## **5. Review of the Prudential Indicators and Treasury Management Strategy for 2021/2022**

5.1 The Prudential Indicators for 2021/2022 were approved by the Council on the 3rd March 2021 and are regularly reviewed to ensure that:

- the Council remained within its Authorised Limit for External Debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Council Treasury Management Policy and Strategy Statement; and
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

5.2 Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Council. At this stage, the Council is operating within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and there are no areas of concern or any issues which require any review of the indicators as originally approved.

### **5.3 Treasury Management Borrowing Strategy – 2021/2022**

5.3.1 The Council's strategy for 2021/2022 is to continue to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow to secure benefit for the Council. A benchmark financing rate of 2.60% for long-term borrowing was set in the Treasury Management Policy and Strategy Statement for 2021/2022 reflecting the views prevalent at the time.

5.3.2 Due to high levels of volatility in the financial markets and with borrowing rates forecast to remain low over the short to medium-term, no new borrowing or debt rescheduling has been undertaken in 2021/2022 to 30th September 2021. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirements in 2021/2022.

## 5.4 Treasury Management Investment Strategy – 2021/2022

- 5.4.1 The primary aim of the Investment Strategy is the security of Council funds, then having regard to liquidity, i.e. the availability of cash to meet the Council's liabilities, and finally to secure a reasonable rate of return on its investments.
- 5.4.2 The Organisation for Economic Co-operation and Development (OECD) projects GDP to grow by 7.25% in 2021 but has revised upwards its forecast for 2022 from 5.75% to 6%.
- 5.4.3 The BoE's Monetary Policy Committee (MPC) meeting on 5<sup>th</sup> August 2021 voted unanimously to leave the Base Rate unchanged at 0.10%. What has changed is the previous stance of not tightening monetary policy, to now flagging that modest interest rate increases may be on the horizon. While financial markets have been anticipating an increase in the Base Rate to 0.25% by mid-2022 and to 0.50% by the end of 2022, Link Asset Service, the Council's treasury advisors, believe any rise will not occur before mid-2023.
- 5.4.4 As at 30<sup>th</sup> September 2021 the Council achieved a rate of return on its investments of 0.12% compared with the 7-day London Interbank Bid (LIBID) rate of -0.08%. Whilst returns available in the market remain historically low, the performance achieved continues to be above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.

## 6. Reasons for Decision

- 6.1 As included in the Council's constitution, Cabinet is required to exercise control over capital spend and resources, and as such receives quarterly reports to support this. This report notes the inclusion of additional capital schemes since approval by Cabinet on 13<sup>th</sup> July 2021.
- 6.2 Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2021/2022, which is in line with the approved Treasury Management Policies.

## 7. Alternative Options

- 7.1 No alternative options are proposed in relation to the outcome of the second capital review or the progress with implementing the Treasury Management Borrowing and Investment Strategy for 2021/2022.

## 8. Impact Analysis

- 8.1 Impact assessments will be undertaken by Directorates to ensure programmes are delivered within budget.

## 9. List of Appendices

- 9.1 Appendix A – Variations to the 2021/2022 Capital Programme.

## 10. Background Papers

Capital Programme 2021/2022 to 2024/2025 and Treasury Management Policy and Strategy 2021/2022.

Capital Programme First Review 2021/2022 (including Treasury Management).

## Appendix A

### Variations to the 2021/2022 Capital Programme

| Portfolio / Project     | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment   |
|-------------------------|-------------------------------------|---|---|--|---|---|
| <b>Leader</b>           | <b>1,000</b>                        | <b>0</b>  | <b>0</b>  | <b>0</b>                                       | <b>1,000</b>                            | <b>No Variances.</b>  |
| <b>Deputy Leader</b>    |                                     |   |   |  |   |   |
| Port Enterprise<br>Zone | 3,569                               | (1,901)   | 0   | 0  | 1,668                                   | The Port Enterprise Zone infrastructure works comprise four works packages; rail improvements, dock road realignment and upgrade, East Shore land remediation and Trinity (formerly Hendon Sidings) land remediation. The rail, road and east shore elements are now complete. The commencement of the ground works element of the Trinity scheme has experienced a delay and there is now a requirement to review the supporting ecological elements of the scheme's planning application (as requested by statutory consultees) and this has delayed the submission of the formal planning application to the relevant planning and highways committee. Commencement of works is now anticipated during quarter 4 2021/2022, with completion expected during quarter 3 2022/2023 resulting in £1.901m to be reprofiled from 2021/2022 into 2022/2023. |

| Portfolio / Project                              | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment  |
|--|-------------------------------------|---|---|--|---|--|
| Microgrid<br>Backbone                            | 0                                   | 0   | 1,665   | 0  | 1,665                                   | The Council has secured £14.951m from the Department for Business, Energy and Industrial Strategy (BEIS) to provide significant energy infrastructure enabling works at the International Advanced Manufacturing Park (IAMP). The works, fully funded by this grant, include diversion of National Grid infrastructure (towers) to remove an obstruction from the IAMP development site to maximise the land available to enable optimum construction and operation of up to 4m square feet of Gigafactory development as part of the UK's first EV Hub. It also covers progression of development work to secure additional power supplied via a direct connection to National Grid on IAMP with an associated distribution sub-station which is designed to enable further development of an energy microgrid securing cost competitive energy with the ability to scale-up renewable energy supply. £1.665m of costs are profiled for spend in 2021/2022. |
| City Way Car Park                                | 176                                 | 0   | (176)   | 0  | 0                                       | The planned development of a City Way car park at Doxford had been paused whilst all options were investigated to consider the current situation with regards to Covid-19 and understanding future working patterns. Due to the national and local changes in working patterns, and also the alternative parking options, there is no longer a need to develop this car park. The £2.051m budget is therefore proposed to be removed from the Capital Programme, including £0.176m profiled in the current financial year.   |
| Onstreet<br>Residential<br>Chargepoint<br>Scheme | 0                                   | 0   | 92  | 0  | 92                                      | The Council has secured a grant of £0.069m from the Department of Transport to install on-street charging points for local residents wishing to charge their plug-in electric vehicles. This has been matched by £0.023m from the Council's Local Transport Plan grant allocation.   |
| Other Projects                                   | 102,570                             | 0   | (3)   | 0  | 102,567                                 | Minor fully funded variations including the £0.023m committed to the above project.  |
| <b>Total Deputy<br/>Leader</b>                   | <b>106,315</b>                      | <b>(1,901)</b>                                      | <b>1,578</b>  | <b>0</b>                                       | <b>105,992</b>                          |  |

| Portfolio / Project                                 | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment   |
|---|-------------------------------------|---|---|--|---|---|
| <b>Cabinet Secretary</b>                            | <b>23,662</b>                       | <b>0</b>  | <b>0</b>  | <b>0</b>                                       | <b>23,662</b>                           | <b>No Variances.</b>  |
| <b>Children,<br/>Learning &amp; Skills</b>          |                                     |   |   |  |   |   |
| Hetton Primary<br>School New Build                  | 2,993                               | 0   | 962   | 0  | 3,955                                   | Following receipt of tender prices for the main construction works for the Hetton Primary School new build, there is a requirement to increase the current project budget from £5.740m to £6.702m. The increase of £0.962m is due to two factors: 1) material price increases resulting from the current supply volatility issues, and 2) implementation of carbon reduction methods to support the Council and City's Carbon agendas. It is proposed to fund this increase from available schools' capital Basic Need grant as part of the School's Asset Management Unallocated funds within the current Capital Programme. Works to this new school commenced in August 2021 and are scheduled to complete September 2022 i.e. a year earlier than previously planned. This is in recognition of the condition of the current school building and also to support moving pupils from temporary classrooms at the earliest opportunity into the new facility. |
| School's Asset<br>Management<br>Unallocated         | 1,819                               | 0   | (974)   | 0  | 845                                     | Net adjustments re virements to/from other projects, primarily Hetton Primary School New Build above.   |
| Barnes Junior<br>School Dining<br>Block Replacement | 1,459                               | (609)   | 0   | 0  | 850                                     | The new dining block at Barnes Junior School will be ready to open for the start of the 2022/2023 academic year. However, due to a need to reprioritise the school's capital programme, primarily to support the earlier new build of the Hetton Primary school, the works will now be scheduled later than originally planned, being from April to August 2022. As a result, there is £0.609m to be reprofiled from 2021/2022 into 2022/2023 to match the estimated costs in that year.  |



| Portfolio / Project                              | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment  |
|--|-------------------------------------|---|---|--|---|--|
| Harry Watts<br>Academy –<br>Harraton             | 700                                 | (300)   | 0   | 0  | 400                                     | The development of the Harry Watts Academy satellite site at Harraton has been split into phases. The first phase of works will be to refurbish the main building to bring it into use in January 2022. The subsequent phase to convert the former vocational centre buildings into specialist teaching areas and provide support spaces will be completed for the start of the 2022/2023 academic year. The result of this phasing is for £0.300m to be reprofiled from 2021/2022 into 2022/2023.   |
| Willow Wood<br>Primary School<br>New Build       | 1,606                               | 0   | 165   | 0  | 1,771                                   | The new Willow Wood Primary School is now open. There have been additional works undertaken including traffic calming measures to Redcar Road associated with a planning requirement, as well as new perimeter fencing and other outdoor space improvements. The cost increase is £0.165m and is fully funded by S106 developer contributions.   |
| Other Projects                                   | 13,017                              | 0   | 40  | 0  | 13,057                                  | Minor fully funded variations.   |
| <b>Total Children,<br/>Learning &amp; Skills</b> | <b>21,594</b>                       | <b>(909)</b>  | <b>193</b>  | <b>0</b>                                       | <b>20,878</b>                           |  |
| <b>Dynamic City</b>                              |                                     |   |   |  |   |  |
| Crowtree site<br>works                           | 8,707                               | (7,264)   | 0   | 0  | 1,443                                   | The impact of Covid-19 has required the Council to reconsider plans for the Crowtree projects as vacant retail units in the city centre have risen considerably and leisure/entertainment development work has slowed as businesses emerge from national lockdowns. The Council is working in collaboration with the Bridges shopping centre to come forward with a comprehensive redevelopment of the site and as such £7.264m expenditure, part supported by the Future High Streets Grant, is now to be re-profiled from 2021/2022 into 2023/2024, with over £6m still planned for 2022/2023. |

| Portfolio / Project   | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment  |
|---|-------------------------------------|---|---|--|---|--|
| Housing Delivery<br>Investment Plan   | 15,837                              | (4,837)   | 0   | 0  | 11,000                                  | The delivery to meet the planned outcomes of the Housing Delivery Investment Plan continues with over £6m invested to date into new bungalows and bringing empty properties into use. However, £4.837m is required to be reprofiled from 2021/2022 into future years to match current planned activities, impacted to date in part from the Covid-19 pandemic, from supply chains and resourcing issues, as well as the availability of properties meeting the criteria for purchase and repair.   |
| Inspiring Futures<br>Programme -<br>Homelessness<br>Services and<br>Accommodation | 4,858                               | (4,182)   | 0   | 0  | 676                                     | The Inspiring Futures Programme will provide accommodation and support for those who are homeless, have complex needs and require support to move forward with their lives towards independent living. To date there has been difficulty sourcing suitable locations resulting in £4.182m budget is to be reprofiled from 2021/2022 into 2023/2024. Suitable locations continue to be explored, and once secured, funding from Homes England and Ministry for Housing, Communities and Local Government will be requested to support the developments. |
| Willowfield<br>Supported Housing<br>Village                                       | 1,157                               | (657)   | 0   | 0  | 500                                     | The planned new provision of self-contained supported living apartments for those adults requiring Extra Care on the former Willowfield school site is in the early stages of design, planning and consultation. The old school buildings are planned to be demolished within the next few months and building development works are planned to commence in 2022/2023, requiring £0.657m budget to be reprofiled from 2021/2022 into 2022/2023 to match the costs of those works, with completion expected by the end of 2024.                         |

| Portfolio / Project  | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment   |
|--|-------------------------------------|---|---|--|---|---|
| Social Housing<br>Decarbonisation<br>Fund Demonstrator       | 906                                 | 0   | (906)   | 0  | 0                                       | There had been £0.906m funding approved by the Department for Business, Energy and Industrial Strategy (BEIS) to deliver a Social Housing Decarbonisation Fund Demonstrator. Gentoo were to deliver the project on behalf of the Council, to decentralise, digitalise and decarbonise homes whilst making them warmer, more comfortable, more energy efficient and healthier places to live. However, following the results of detailed survey work and latest cost estimates, the project was no longer financially viable, and the project has been terminated. The Council and Gentoo though continue dialogue with BEIS to seek approval of other funding for similar activity in the next round of funding availability.   |
| Other Projects   | 81,712                              | 0   | 43  | 0  | 81,755                                  | Minor fully funded variations.  |
| <b>Total Dynamic<br/>City</b>                                | <b>113,177</b>                      | <b>(16,940)</b>                                     | <b>(863)</b>  | <b>0</b>                                       | <b>95,374</b>                           |   |
| <b>Healthy City</b>  | <b>7,030</b>                        | <b>0</b>  | <b>0</b>  | <b>0</b>                                       | <b>7,030</b>                            | <b>No Variances.</b>  |
| <b>Vibrant City</b>  |                                     |   |   |  |   |   |
| Sunderland<br>Museum, Winter<br>Gardens and<br>Redevelopment | 600                                 | (500)   | 0   | 0  | 100                                     | The plans for SMWG have been impacted this year by the Covid-19 pandemic which saw the closure and furlough of consultant teams, delaying the procurement process to appoint the specialist resource required. Moreover, the external funding body paused their funding pots to focus on their pandemic response and then amended the Expression of Interest (EOI) process upon the grant pots reopening, resulting in the rewriting of the previously agreed EOI. These factors have limited the ability to proceed with the project as previously planned, resulting in £0.5m to be reprofiled into future years. There is now movement on the procurement process and there is confirmation from the National Lottery Heritage Fund that the project can progress to the next stage of the grant bid process, with confirmation of the outcome expected in 2022. |
| Other Projects   | 3,920                               | 0   | 0   | 0  | 3,920                                   |   |

| Portfolio / Project                | Latest Budget<br>2021/2022<br>£'000 | Reprofiling of<br>Expenditure<br>2021/2022<br>£'000 | Additional Schemes<br>and Cost Variations<br>to Existing Projects<br>2021/2022<br>£'000 | Technical<br>Adjustments<br>2021/2022<br>£'000 | Revised<br>Budget<br>2021/2022<br>£'000 | Comment |
|------------------------------------|-------------------------------------|---|---|--|---|---------|
| Total Vibrant City                 | 4,520                               | (500)   | 0   | 0  | 4,020                                   |         |
| <b>TOTAL CAPITAL<br/>PROGRAMME</b> | <b>277,298</b>                      | <b>(20,250)</b>                                     | <b>908</b>  | <b>0</b>                                       | <b>257,956</b>                          |         |