

## CABINET MEETING –13 JULY 2021

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

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

**Author(s):**

Executive Director of Corporate Services

**Purpose of Report:**

This report details:

- the outcome of the First 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 first 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 well as the funding arrangements set out in paragraph 4.2 for Farringdon Academy, 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 Council on 3rd March 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.

**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 – 13 JULY 2021**

### **CAPITAL PROGRAMME FIRST 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 First 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 first 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 well as the funding arrangements set out in paragraph 4.2 for Farringdon Academy, 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 the phasing of schemes is reviewed. Variations to the 2021/2022 capital programme since the 2020/2021 Capital Outturn report to Cabinet on 15<sup>th</sup> June 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 First Review 2021/2022**

- 4.1 Since the Capital Programme was reported to Council in March 2021, there have been changes to the 2021/2022 Capital Programme both in terms of expenditure and resourcing. In June 2021 the Capital Programme Outturn position for 2020/2021 was reported to Cabinet, which included reprofiling of expenditure from 2020/2021 to 2021/2022 totalling £24.511m, resulting in a revised budget of £273.274m for the 2021/2022 financial year. During the first quarter of 2021/2022 further reprofiling and other adjustments have been identified increasing the Capital Programme by £4.024m to £277.298m. This is summarised below:

- Reprofiled expenditure of £14.801m 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 update, leading to a net increase of £18.825m in 2021/2022.

- 4.2 To support the Sunderland South Growth Area (SSGA), there had been plans to extend the Farringdon Academy to provide additional pupil places, supported by funding from Homes England via their Housing Infrastructure Fund (HIF). However, recently the Department for Education (DfE) has confirmed that they are to replace this academy with a new build as part of their new school building programme, and their requirements are to replace like-for-like i.e. without provision for any additional places. Given the need in the SSGA, the DfE have offered to deliver an enhanced new build to provide additional places, but are requiring the Council to fund the difference in cost; DfE have estimated this additional cost to be £4m, which will provide for 150 further places to the current school. The HIF funding currently available to support this cost is £0.735m, with the balance of £3.265m proposed to come from available Capital resource. The school is scheduled to open September 2023, with the main works estimated to start May 2022. The agreement between the Council and DfE would be for the Council's contribution to be paid to the DfE upon the confirmation and agreement with the Council of the final cost for the additional works. This is expected to be April/May 2022 i.e. in the 2022/2023 financial year.
- 4.3 Appendix A sets out the detail of the above changes to expenditure and resources for 2021/2022, which is based on the new Cabinet Portfolio areas.
- 4.4 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 Outturn 2020/2021 to Cabinet 15<sup>th</sup> June 2021 advised that during the final quarter of that financial year there have been notable increases in some material prices – primarily steel and timber - across the construction sector following demand and supply imbalances. Industry commentators are indicating that these 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. This may manifest itself in increased costs and / or projects being delayed. As yet, there is no confirmation that these 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 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 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.

### **Borrowing Strategy – 2021/2022**

5.3 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.

5.4 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 30<sup>th</sup> June 2021. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirements in 2021/2022.

### **Investment Strategy – 2021/2022**

5.5 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.

5.6 The Organisation for Economic Co-operation and Development (OECD) has revised its 2021 UK GDP growth forecast from 5.1% to 7.2%, the fastest rate of growth amongst its 37 member countries. The release of May 2021 GDP data is expected to provide further evidence of the economy regaining pre-Covid levels by year-end.

5.7 In March 2020, the Bank of England's Monetary Policy Committee (MPC), in response to the economic impact of the Covid-19 pandemic, cut the Base Rate to 0.10% and this historically low rate has remained since. Market analysts currently forecast the first rise in the Base Rate will occur in the quarter ending September 2023 but this remains under constant review, especially in light of national and international inflationary pressures.

5.8 As at 30<sup>th</sup> May 2021 the Council achieved a rate of return on its investments of 0.09% 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 Council on 3rd March 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.

## **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, including Prudential Indicators for 2021/2022 to 2024/2025.

Capital Programme Outturn 2020/2021.

## Variations to the 2021/2022 Capital Programme

Portfolio / Project	Latest Revised Budget 2021/2022 £'000 **	Reprofiling of Expenditure 2021/2022 £'000	Additional Schemes and Cost Variations to Existing Projects 2021/2022 £'000	Technical Adjustments 2021/2022 £'000	Revised Budget 2021/2022 £'000	Comment
<b>Leader</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,000</b>	<b>No variations.</b>
<b>Deputy Leader</b>						
Strategic Cycle Network	3,109	(2,609)	0	0	500	The planned improvements to the strategic cycle network are reliant upon full approval of the Transforming Cities Fund (TCF) which is funding the majority of this project. However, the design of the routes is progressing from the Council match funding and, subject to TCF approval, construction works will commence early 2022. To re-align the Capital Programme against latest project timelines, £2.609m will therefore be reprofiled into 2022/2023.
A183 Whitburn Road Two-Way Cycle Lane	0	0	1,250	0	1,250	Following approval by Cabinet on 15th June 2021, there is £1.250m to deliver these works, with £1.125m provided from the Emergency Active Travel Fund (Tranche 2) and £0.125m match funding provided from the current Integrated Transport budget from the Council's 2021/2022 LTP grant allocation.
Integrated Transport	2,548	0	(125)	0	2,423	See A183 Whitburn Road Two-Way Cycle Lane above.
Investment Corridors	1,918	(1,188)	0	0	730	Garden Place works will complete this year, and further works to public realm improvements which includes narrowing the carriageway, along High Street from Keel Square to St Michael's Way, are planned to start January 2022. Following the successful Future High Street Fund bid for funding that will support works in the city centre and also a review of the High Street proposals post-Covid, £1.188m is to be reprofiled from 2021/2022 into 2022/2023 to align with current project timelines.

Portfolio / Project	Latest Revised Budget 2021/2022 £'000 **	Reprofiling of Expenditure 2021/2022 £'000	Additional Schemes and Cost Variations to Existing Projects 2021/2022 £'000	Technical Adjustments 2021/2022 £'000	Revised Budget 2021/2022 £'000	Comment
Highways Maintenance	4,826	0	927	0	5,753	The approved 2021/2022 Capital Programme included estimated funding for Highways Maintenance (£3.214m) and Local Transport Plan (LTP - £1.606m) grants for 2021/2022, based on allocations for prior years. The Department for Transport has now confirmed these allocations, being £2.294m for Highways Maintenance (for both Core and Incentive Funding), £1.835m for Potholes, and £1.618m for LTP. There is therefore an increase of £0.927m funding that is to be provided for Highways Maintenance.
City Way Dualling	5,669	(979)	0	0	4,690	Construction on the City Way Dualling to support the South Sunderland Growth Area development commenced April 2021. Construction timelines have been agreed with the main contractor, resulting in £0.979m to be reprofiled from 2021/2022 into 2022/2023. The road is anticipated to be complete Summer 2022.
SSGA - Ryhope Doxford Link Road	3,678	(563)	0	0	3,115	Following prolonged design development work and survey investigations, construction of the Ryhope Doxford Link Road to support the South Sunderland Growth Area development is now expected to commence October 2021, and complete Autumn 2022. This has resulted in £0.563m to be reprofiled from 2021/2022 into 2022/2023.
Panns East Quay Replacement	804	0	500	0	1,304	Cabinet on 15th June 2021 approved an increase of £0.500m to deliver these works.
Vehicle Replacement Programme	2,699	(729)	0	0	1,970	The timing of vehicle replacements is continuously reviewed to ensure vehicles are only replaced when needed i.e. seeking maximum economic life from the fleet whilst taking in to account maintenance costs. This has resulted in £0.729m of the budget to be reprofiled from 2021/2022 into 2022/2023.
Other Projects	84,559	0	21	0	84,580	Minor fully funded variations.
<b>Total Deputy Leader</b>	<b>109,810</b>	<b>(6,068)</b>	<b>2,573</b>	<b>0</b>	<b>106,315</b>	



<b>Cabinet Secretary</b>						
Public Sector Decarbonisation Scheme	0	0	2,216	0	2,216	Following approval by Cabinet on 15th June 2021, there is £2.219m to deliver this project, fully funded by the Department for Business, Energy and Industrial Strategy and administered by SALIX on their behalf (£2.216m in 2021/2022). This is to provide low carbon heating and hot water systems focusing on 8 Council properties and will achieve significant energy demand reduction resulting in expected carbon savings of 375 tonnes per annum.
Green Homes Grant – Local Authority Delivery Phase 2	0	0	1,750	0	1,750	Following approval by Cabinet on 15th June 2021, there is £1.750m to deliver this project, fully funded by the Department for Business, Energy and Industrial Strategy. This is to carry out approximately 500 energy efficiency and low carbon interventions in 270 properties across a wide range of tenures on a city-wide basis.
ICT Infrastructure	644	(168)	0	0	476	A full audit of all end user devices across the Council has identified assets that can be utilised for a longer period and therefore fewer end user devices needing to be deployed during 2021/2022 and instead, some device replacements will be provided in 2022/2023 and 2023/2024, resulting in £0.168m to be reprofiled from 2021/2022 into those years.
Other Projects	19,220	0	0	0	19,220	
<b>Total Cabinet Secretary</b>	<b>19,864</b>	<b>(168)</b>	<b>3,966</b>	<b>0</b>	<b>23,662</b>	
<b>Children, Learning &amp; Skills</b>						
Schools Devolved Capital	547	0	315	0	862	The 2021/2022 capital allocations for schools devolved funding has been confirmed at £0.315m. This provides a total budget of £0.862m for 2021/2022 including the balances brought forward.
Other Projects	20,732	0	0	0	20,732	
<b>Total Children, Learning &amp; Skills</b>	<b>21,279</b>	<b>0</b>	<b>315</b>	<b>0</b>	<b>21,594</b>	

Dynamic City						
HICSA (Housing Innovation Construction & Skills Academy)	5,000	(4,293)	0	0	707	The design of the Housing Innovation Construction & Skills Academy has progressed. As reported to Cabinet on 15th June 2021, the Council has submitted a bid to secure Levelling Up Fund (LUF) grant of £8.751m. Providing the LUF bid is successful, it is envisaged that construction will commence May 2022 with expected completion to be August 2023, resulting in £4.293m to be reprofiled from 2021/2022 into 2022/2023 and 2023/2024.
Northern Spire Park	2,500	(1,750)	0	0	750	The Northern Spire Park project is to deliver infrastructure, remediation works and the strategic acquisition of adjacent land and buildings to enable a high quality and affordable new housing development on the former Groves Cranes site. It is envisaged that expenditure will commence towards the end of 2021 following on from the feasibility works. Therefore, £1.750m budget is to reprofiled from 2021/2022 into 2023/2024 to align to revised timescales, however the project remains on target to complete in 2025.
Housing Other Sites	1,624	(1,000)	0	0	624	Provision is included in the Capital Programme for planning and infrastructure works to allow the Council to bring forward a number of pipeline development sites to meet the city's strategic housing need and optimise land receipts. A review of the timelines for works on potential sites requires £1.0m to be reprofiled from 2021/2022 into 2022/2023.
Crowtree Enabling Works	1,467	0	5,240	0	6,707	Cabinet on 23rd March 2021 approved the receipt of £25m Future High Street Funding following a successful bid for this grant. Part of this approval is for infrastructure works on the Crowtree site to enable a new leisure led development, resulting in a fully funded budget increase in 2021/2022 of £5.240m.
Keel Square Hotel	0	0	1,575	0	1,575	Cabinet on 23rd March 2021 approved the receipt of £25m Future High Street Funding following a successful bid for this grant. Part of this approval is to provide fit out to two of the ground floor commercial units in Keel Square Hotel due to open Winter 2021/2022, resulting in a fully funded budget increase in 2021/2022 of £1.575m.

Heritage Action Zone (HAZ) Partnership Grant Scheme	280	(89)	143	0	334	Cabinet on 23rd March 2021 approved the receipt of £25m Future High Street Funding following a successful bid for this grant. Part of this approval is to convert upper floors in the Elephant Tea Room building to residential units and ground floor to commercial units, resulting in a fully funded budget increase in 2021/2022 of £0.120m. Historic England have also provided a further £0.023m to support the HAZ project (which includes the Elephant Tea Room), to repair, restore and enhance key landmark listed buildings in the City, following some known cost increases due to delays from Covid-19. There is also £0.089m to be re-profiled from 2021/2022 to 2022/2023 following these delays.
Social Housing Decarbonisation Fund Demonstrator	0	0	906	0	906	Following approval by Cabinet on 23rd March 2021, there is £0.906m to deliver this project, fully funded by the Department for Business, Energy and Industrial Strategy. Gentoo will deliver the project on behalf of the Council, focusing on 46 properties in the Fatfield, Washington area to deliver a fabric first low carbon scheme, to decentralise, digitalise and decarbonise homes whilst making them warmer, more comfortable, more energy efficient and healthier places to live.
Bishopwearmouth Townscape Initiative Phase 2	1,022	(533)	0	0	489	This project, supported by the Heritage Lottery Fund, provides grants to owners / tenants to repair and restore historic properties in the Bishopwearmouth area. Whilst there has been positive progress to date with over £1.2m improvements to business properties and the Town Park, Covid-19 lockdowns and restrictions have significantly reduced incomes of bars, restaurants, and cafes, including the businesses intended to participate in this scheme. Due to their current financial considerations, business owners are seeking to delay contributing to building works until the economy is expected to improve. This has resulted in £0.533m budget to reprofiled from 2021/2022 to 2022/2023 and 2023/2024.

Housing – Hetton Downs Regeneration and Empty Properties Programme	1,806	(900)	180	0	1,086	Following a consultation with local residents, it is proposed that £0.916m that had previously been earmarked for purchase and repairs of properties in Edward and Fairy streets will instead support a Edward and Fairy Street Development (in Hetton Downs) which will provide landscaping and environmental improvements including provision of gardens to homes. With consideration to lead in times and further consultation with residents, £0.900m is to be reprofiled from 2021/2022 into 2022/2023. In addition, there is £0.180m further S106 funding to facilitate the city-wide empty properties purchase and repair programme that will be used to fill a viability gap to achieve the targets as outlined within the HDIP. These properties will be let as affordable rental units.
Other Projects	99,999	0	0	0	99,999	
<b>Total Dynamic City</b>	<b>113,698</b>	<b>(8,565)</b>	<b>8,044</b>	<b>0</b>	<b>113,177</b>	
<b>Healthy City</b>						
Disabled Facilities Grants	477	0	3,674	0	4,151	The national allocations for the Disabled Facilities Grant (DFG) 2021/2022 have been confirmed at £573m. Whilst there has not been confirmation yet of individual Local Authority allocations, the national amount is the same as the prior two years, which provided £3.574m to Sunderland. It is proposed therefore to include this value in the Capital Programme pending formal confirmation. Also, as in recent years, there is further funding available for DFGs of £0.100m from Gentoo; this brings the total additional budget in 2021/2022 to £3.674m.
Other Projects	2,879	0	0	0	2,879	
<b>Total Healthy City</b>	<b>3,356</b>	<b>0</b>	<b>3,674</b>	<b>0</b>	<b>7,030</b>	
<b>Vibrant City</b>						
Neighbourhood Renewal	2,156	0	153	0	2,309	£0.153m has been secured from the Council's Neighbourhood Fund to support Capital works, mainly in relation to Green Gyms and CCTV provision.

Parklife Football Hubs	5	0	100	0	105	There is an unavoidable cost increase of £0.1m across the three football hubs, primarily the Downhill site due to unforeseen temporary utilities supply, provision of a new fire hydrant and meter, as well as additional external hardstanding requirements. This is to be funded from available Capital resource.
Other Projects	2,106	0	0	0	2,106	
<b>Total Vibrant City</b>	<b>4,267</b>	<b>0</b>	<b>253</b>	<b>0</b>	<b>4,520</b>	
<b>TOTAL CAPITAL PROGRAMME</b>	<b>273,274</b>	<b>(14,801)</b>	<b>18,825</b>	<b>0</b>	<b>277,298</b>	

**\*\* Note – Reconciliation to Original Approved 2021/2022 Capital Programme**

<i>Cabinet 15th June 2021 – Capital Programme Outturn 2020/2021</i>	(24,511)					<i>2020/2021 Outturn: Reprofiting of expenditure between 2020/2021 and 2021/2022 reported to Cabinet 15th June 2021.</i>
<b>ORIGINAL 2021/2022 CAPITAL PROGRAMME</b>	<b>248,763</b>					<b>Original Capital Programme approved by Full Council 3rd March 2021</b>