(1)

CABINET – 7 FEBRUARY 2018

CAPITAL PROGRAMME 2018/2019 TO 2021/2022 AND TREASURY MANAGEMENT POLICY AND STRATEGY 2018/2019, INCLUDING PRUDENTIAL INDICATORS FOR 2018/2019 TO 2020/2021.

Report of the Executive Director of Corporate Services

1. Purpose of the Report

1.1 To update Cabinet on the level of capital resources and commitments for the forthcoming financial year and seek a recommendation to Council to the Capital Strategy, overall Capital Programme 2018/2019 to 2021/2022 and the Treasury Management Policy and Strategy (including both borrowing and investment strategies) for 2018/2019 and to approve the Prudential Indicators for 2018/2019 to 2020/2021.

2. Description of Decision

2.1 Cabinet is requested to recommend to Council approval of:

- the proposed Capital Programme for 2018/2019;
- the Council's Capital Strategy 2018/2019 to 2021/2022;
- the Treasury Management Policy and Strategy for 2018/2019 (including specifically the Annual Borrowing and Investment Strategies);
- the Prudential Indicators for 2018/2019 to 2020/2021;
- the Minimum Revenue Provision Statement for 2018/2019.

3. Background

3.1 The Council already has an ambitious capital programme that is clearly linked to the corporate plan and priorities. The current capital programme contains some significant projects including IAMP, New Wear Crossing, SSTC Phase 3 Road and Vaux Phase 1.

3.2 On 13th December 2017, following a full consultation process, Cabinet approved a number of new start projects which have been included in this revised Programme.

4. Capital Programme 2018/2019 to 2021/2022

4.1 General

The proposed Capital Programme for 2018/2019 to 2021/2022 reflects the drive to deliver on the aims and priorities set out in the Economic Master Plan and the City's 3,6,9 Vision, and is aimed at securing capital investment in the City to deliver growth and jobs. The total proposed programme amounts to £281.910m, with £147.528m programmed in 2018/2019 as set out below:

Expenditure by Portfolio	Estimated Payments 2018/2019 £m	2019/2020 £m	2020/2021 £m	2021/2022 £m	Total £m
Leader	63.915	26.385	23.431	0.000	113.731
Deputy Leader	2.967	0.000	0.000	0.000	2.967
Cabinet Secretary	20.688	1.400	1.700	0.700	24.488
Children's Services	1.194	2.000	0.000	0.000	3.194
Health, Housing & Adult Services	3.606	0.250	0.250	0.250	4.356
Public Health, Wellness & Culture	7.674	2.650	1.000	0.000	11.324
City Services	47.484	42.784	28.136	3.446	121.850
TOTAL CAPITAL EXPENDITURE	**147.528**	**75.469**	**54.517**	**4.396**	**281.910**

4.2 Members will be aware that in 2017/2018 the Council committed resources towards a capital programme spanning a five year period. Therefore the 2018/2019 to 2021/2022 programme reflects:

- on-going capital scheme commitments from previous years of £217.043m (£118.767m in 2018/2019) as set out in Appendix 2;
- new starts / additional investment of £64.867m (£28.761m in 2018/2019) summarised at section 4.6 with further detail set out in Appendix 3.

The details of the full Capital Programme for 2018/2019 to 2021/2022 are included in Appendix 4. The rest of this section of the report covers proposals for new starts / additional investments in more detail.

4.3 **Joint Venture Arrangements and Wholly Owned Companies**

The Council formed a Local Asset Backed Vehicle (Siglion) in November 2014. Siglion's focus is on developing the three priority regeneration sites of the former Vaux brewery, Chapelgarth and Seaburn.

Similarly, Sunderland Lifestyle Partnership Ltd, formed with Sports and Leisure Management Ltd in June 2015 continues to progress investment in the expansion and refurbishment of gym and leisure facilities across the City. Major works have been completed at Silksworth Tennis Centre, the Aquatic Centre and Raich Carter. Further developments will take place at Silksworth Ski Centre in 2018/2019.

Sunderland Care and Support Ltd manage capital investments in relation to Adults Services, primarily being Disabled Facilities Grants, included in the capital programme upon funding confirmation.

The assets for Together for Children remain with the Council, with the Council being responsible for maintaining these, including schools. Spend against these assets is reflected in the capital programme.

Sunderland Housing Limited supports housing delivery and investment on behalf of the Council. The Council provides approved funding to the company for Housing investment needs, with projects reflected in the capital programme.

4.4 **Additional Capital Project Proposals 2018/2019 to 2021/2022 - Context**

4.4.1 The financial climate requires the Council's capital programme to be focused on the key priority projects that will generate the greatest benefits in the City. Project proposals for consideration for inclusion within the capital programme are therefore aligned to:-

- The aims and priorities set out in the Council's Corporate Plan and the 3,6,9 Vision for transforming the City, which identifies initiatives, projects and ideas that will help shape the City in the coming years.
- A Capital Strategy which has been developed in line with guidance issued by CIPFA as part of its revised Prudential Code. The strategy provides a framework within which the Council's capital investment plans will be prioritised and delivered. The Capital Strategy 2018/2019 to 2021/2022 is attached at Appendix 1.
- The more detailed strategies that support the Corporate Plan and 3,6,9 vision including in relation to Regeneration, Housing, Transport, the Local Plan and Culture.
- The need to continue to scan for opportunities for accessing additional public sector, Government and European funding and to leverage private sector funding into the City.
- Our continued commercial approach to securing capital investment in the City in order to deliver growth and jobs.

4.4.2 The Council's Corporate Plan sets out the priorities for the City, which are reflected in the Capital Strategy as:

- Regenerating the City
  - Growing the economy
  - Improving education and skills
  - Improving Health and Wellbeing

- Safeguarding our Residents
  - Supporting vulnerable children and families
  - Supporting vulnerable adults and carers
  - Building resilient communities

- Future Council
  - New ways of working and collaboration
  - New ways of delivering services

4.4.3 In the light of the above priorities, the proposed additional capital projects for 2018/2019 to 2021/2022 take into account:

- A focus on contributing to strategic priorities by investing in:
  - City centre regeneration,
  - Economic regeneration and inward investment,
  - City wide infrastructure, and
  - Area based infrastructure and public realm.

- The Council's reducing resources (both in terms of available finance and people resources);

- A required emphasis on investing to save and maximising return on investment, to:
  - Ensure a commercial return on investment;
  - Grow the Council's income base;
  - Attract and support more and better jobs and economic growth;
  - Arrest and reverse our population decline and generate additional income through New Homes Bonus and increased Council Tax from new housing;

- o Provide infrastructure development which attracts and complements private sector investment and development, generating additional business rates; and
  - o Generate and support future funding opportunities and streams which encourages and levers in private sector investment.

- Working with key partners to review physical assets on a city-wide basis and maximise the potential benefits and opportunities of wider capital and infrastructure planning;

- Maximising the benefits of existing delivery partnerships (such as Siglion and Sunderland Lifestyle Partnership Ltd); and

- The requirement for investment to enable continued front line service delivery.

4.5 Resources Available for New Starts / Additional Investments

4.5.1 Resources - Grants

The availability of new external funding from significant regional funding programmes, such as the Local Growth Fund, is now severely restricted. As reported to Cabinet in December 2017, resources have been allocated regarding Transport, Better Care Fund and Education grants on the basis of their specific purpose approvals and will be allocated to those relevant services areas.

The table below details Government Grants announced for 2017/2018 onwards.

	2017-18	2018-19	2019-20	2020-21
	£'000	**£'000**	**£'000**	**£'000**
Highways Capital Maintenance	2,939	2,660	2,660	2,660
Highways Capital Maintenance – Incentive Funding	248	554	554	554
Pot Hole Funding	260	479	tbc	tbc
Highways Integrated Transport	1,606	1,606	1,606	1,606
Nexus Allocation	42	42	tbc	tbc
National Productivity Investment Fund (NPIF) - Transport	932	3,360	tbc	tbc
Safer Roads Funding	210	tbc	tbc	tbc
Total Transport	**6,237**	**8,701**	**4,820**	**4,820**
Better Care Fund (DFG)	3,085	tbc	tbc	tbc
Disabled Facilities Grants	258	tbc	tbc	tbc
Total Health, Housing and Adult	**3,343**	**tbc**	**tbc**	**tbc**
Schools Condition Allocation	1,455	tbc	tbc	tbc
Education Basic Need	0	0	386	tbc
Schools Devolved Funding	388	tbc	tbc	tbc
Early Years 30hrs Free Childcare	580	0	0	0
SEND	0	166	167	167
Total Department for Education	**2,423**	**166**	**553**	**167**

The Council is awaiting further details of grants that will be awarded to support the 2018/2019 capital programme, which will be reported to Cabinet in due course.

At this stage no allocations have been announced beyond 2020/2021.

Appendix 3 sections 2 to 4 set out details of proposed use of the above 2018/2019 funding.

4.5.2 **Resources – Capital Receipts and Reserves**

The Council continues to market sites for sale to maximise capital receipts and support operational requirements. Capital receipts are only earmarked to fund the Capital Programme once they have been realised. While the council is targeting capital receipts, the first call on capital receipts realised will be to support the delivery of the councils savings programme agenda.

S106 Reserves - Upon confirmation of S106 agreements with developers, monies are held in reserves until detailed plans on use of the funding in accordance with the requirements outlined in the S106 agreements are developed, following which projects are brought into the Capital Programme at the appropriate time. (Typical uses would be for development/improvement of play provision, educational assets, highways infrastructure, affordable housing, public open spaces and ecological improvements).

Following a review of available resources it is proposed that £2.754m capital receipts and £7.081m capital reserves be used to support the capital programme proposals (£1.508m in 2018/2019 and £8.327m in future years).

Elsewhere on the agenda, the Revenue Budget and Proposed Council Tax report for 2018/2019 sets out the Council Efficiency Strategy for the period 2018/2019 to 2020/2021. In accordance with Government guidance on the availability of flexibility around the use of capital receipts for transformation purposes, the Strategy includes the continued proposed use of capital receipts arising in 2017/2018 to 2020/2021 to support transformation costs arising from implementing the Council's savings programme for 2017/2018 to 2020/2021. This will ensure the Council has maximum flexibility in funding options available to meet the transformational costs at outturn. The position will be kept under review and final decisions on funding options will be made at outturn, in light of the overall corporate position, actual capital receipts realised and available earmarked reserves. While it is noted that using capital receipts to fund transformation projects means this funding is not available for capital projects, the new starts projects within the proposed Capital Programme are all fully funded from either borrowing, earmarked capital reserves or external grants and contributions.

4.5.3 **Resources – Revenue Contribution to Capital Outlay (RCCO)**

Given the continued austerity measures and the requirement for the council to identify £53m savings for 2018/2019 to 2020/2021, the 2018/2019 does not include a Revenue Contribution to Capital.

4.5.4 **Resources – Borrowing**

While historically the Council has utilised flexibility in funding its capital programme through the use of prudential borrowing, the scale of the £53m budget gap means the capacity for new prudential borrowing is limited. Additional borrowing results in additional debt charges which must be affordable within the revenue budget planning with appropriate provision included within the base budget and MTFS.

The budget includes prudent provision for capital financing charges that may arise from an additional net £34.355m of prudential borrowing (£13.815m in 2018/2019 and £20.540m from 2019/2020). Some additional provision is made within capital financing charges for further schemes that may progress subject to development of a detailed business case. However, it is important to note that much of this investment is anticipated to be recouped through commercial arrangements over time and some investments are linked to the generation of savings to support the revenue budget. It is proposed to use this borrowing flexibly by switching with surplus capital receipts once realised. This would reduce planned capital finance charges that may arise from this borrowing.

4.5.5 **Resources – Other Funding – Enterprise Zones**

The current capital programme includes two enterprise zones at the IAMP site and part of the Port of Sunderland. All of the business rates generated on these enterprise zones for the 25 year life of the enterprise zone are payable to the North East LEP. The current programme assumes this resource is then distributed by the North East LEP to meet / contribute to the costs associated with funding the infrastructure works associated with these zones. To the extent that insufficient business rates are generated compared to the financing costs of the infrastructure works then there remains a risk that the council would need to meet this shortfall over time.

At this time there are no additional Enterprise Zones proposed by Government within the Sunderland area.

4.6 **Detailed Proposals for New Starts and Capital Programme 2018/2019 to 2021/2022**

4.6.1 Following consultation with Portfolio Holders and approval by Cabinet in December 2017, the projects in the table below are included in the capital programme for 2018/2019 to 2021/2022 with further details set out in Appendix 3.

4.6.2 Projects have been categorised into three main themes:

- Strategic Regeneration (Appendix 3, section 1.1) - covering physical infrastructure works and inward investment;
- Invest to Save Projects (Appendix 3, section 1.2) - where investment will generate cost savings, enable additional income generation or protect existing income generation;
- Support for Front Line Service Delivery (Appendix 3, section 1.3) - investment to enable the efficient and effective operation of front line services.

4.6.3 In addition, following confirmation of specific grant approvals, these grants have been allocated to relevant service areas in the table below, with further details set out in Appendix 3.

Appendix 3 Ref	Project Name	Total Project Spend £'m	Spend 2018/19 £m	Spend Future Years £m	External Funding £'m	Council Provision in Current Capital Programme £'m	Additional Council Funding £m
Strategic Regeneration (Physical and Inward Investment)							
1.1.1	SSGA - School Extensions - St Pauls CE VC Primary and Benedict Biscop Primary	2.000	0.000	2.000	0.000	0.000	**2.000**
1.1.2	SSGA - Ryhope Doxford Link Road	5.000	0.000	5.000	0.000	0.000	**5.000**
1.1.3	A19/A690 Doxford Park Junction Improvement Scheme - Capacity Improvement Measures	1.919	1.919	0.000	1.439	0.000	**0.480**
1.1.4	Coastal Defence - Strategic Frontage 3 (Port)	10.500	1.575	8.925	2.930	1.634	**5.936**
1.1.5	Sunderland Seafront Trust - Development of Seafront Assets	1.100	0.000	1.100	0.600	0.000	**0.500**
1.1.6	Seaburn Public Realm	0.325	0.025	0.300	0.000	0.000	**0.325**
1.1.7	City Centre Regeneration – Support for City Centre Masterplanning	10.730	9.730	1.000	0.000	5.940	**4.790**
1.1.8	Provision for Economic Development Grants	2.100	0.000	2.100	0.000	0.000	**2.100**
1.1.9	Increasing Access to Heritage through technology and other solutions – Development of local studies and heritage centre	3.500	0.000	3.500	3.000	0.000	**0.500**
1.1.10	Sunderland Illuminations	0.150	0.000	0.150	0.000	0.000	**0.150**
1.1.11	Former Usworth Comprehensive School Site Enabling Works	0.510	0.510	0.000	0.000	0.000	**0.510**
Total		**37.834**	13.759	24.075	**7.969**	**7.574**	**22.291**
Invest to Save							
1.2.1	Assistive Technology in Adult Social Care	1.050	0.300	0.750	0.000	0.000	**1.050**
1.2.2	Derwent Hill Bunkhouse, campsite and wheelchair access	0.305	0.305	0.000	0.000	0.000	**0.305**
1.2.3	Software Centre Car Park (Murton St)	0.356	0.356	0.000	0.000	0.000	**0.356**
1.2.4	Roker Car Park Expansion - Marine Walk	0.150	0.050	0.100	0.000	0.000	**0.150**
1.2.5	Port Mobile Crane	2.876	2.876	0.000	0.000	0.000	**2.876**
1.2.6	LED Lighting in Operational Buildings - Energy Efficiency	0.500	0.500	0.000	0.000	0.000	**0.500**
1.2.7	Sunderland Museum and Winter Gardens – Minor Works / Improvements	0.335	0.335	0.000	0.000	0.000	**0.335**
Total		**5.572**	4.722	0.850	**0.000**	**0.000**	**5.572**
Supporting Front Line Services							
1.3.1	Replacement Household Waste and Recycling Centre	5.000	1.500	3.500	0.000	0.000	**5.000**
1.3.2	Refuse Collection Vehicle Replacement Programme	3.780	0.000	3.780	0.000	0.000	**3.780**
1.3.3	Specialist (Large) Vehicle Fleet Replacement Programme	1.920	0.873	1.047	0.000	0.000	**1.920**
1.3.4	Redevelopment of Parsons Depot	6.854	4.000	2.854	0.000	1.227	**5.627**
Total		**17.554**	6.373	11.181	**0.000**	**1.227**	**16.327**
Service New Grant Allocations							
2.0	Transport (Highways) Schemes	3.741	3.741	0.000	3.741	0.000	**0.000**
3.0	Health, Housing & Adults - awaiting Better Care Fund allocation	0.000	0.000	0.000	0.000	0.000	**0.000**
4.0	Children's Services - awaiting majority of schools allocations	0.166	0.166	0.000	0.166	0.000	**0.000**
Total		**3.907**	3.907	0.000	**3.907**	**0.000**	**0.000**
TOTAL		**64.867**	28.761	36.106	**11.876**	**8.801**	**44.190**

4.6.3 The proposed additional new starts / additional investment totals £64.867m, (£28.761m in 2018/2019 and £36.106m in future years). Of the total £64.867m:

- £11.876m is externally funded;
- £8.801m is existing council funding already included in the current capital programme;
- The remaining balance of £44.190m is to be met from available Council resources, as follows:
  - £2.754m capital receipts
  - £7.081m capital reserves
  - £34.355m prudential borrowing.

It is important to note that:

- Some capital projects included in the table above will be subject to positive outcomes of external grant funding bids;
- Some of the above investment is anticipated to be recouped through either S106 or commercial arrangements over time;
- Some investments are linked to the generation of savings to support the revenue budget.

4.6.4 Planned funding sources for individual capital schemes may be subject to amendment in order to achieve best value to the Council and ensure the capital programme continues to be prudent, affordable, and sustainable into future years and within overall borrowing limits whilst still retaining flexibility.

4.6.5 The recommended Capital Programme is included in full as Appendix 4 to this report.

4.6.6 Additional capital project proposals were approved by Cabinet on 13th December 2017. The Scrutiny Committee on 11th January 2018 acknowledges the capital programme and is satisfied with the proposed variation to the Capital Programme.

4.7 **Further Reports**

In accordance with the Council's Constitution, prior to the commencement of projects, details of all new schemes must be subject to a full capital investment appraisal. Those schemes with an estimated cost in excess of £0.250m must be reported for approval to Cabinet before commencement of the scheme. For those schemes below £0.250m consultation must take place with the relevant Cabinet Portfolio Holder and Executive Director of Corporate Services in advance of delegated decisions being taken to implement these schemes, and subsequently approved by Cabinet as part of the quarterly capital review process. Any further proposals for additional projects will follow the above processes for approval as they emerge.

5. Prudential Framework and Code

5.1 One of the principal features of the Local Government Act 2003 is to provide the primary legislative framework to introduce a prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code issued and maintained by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code was reported to Council in March 2004.

5.2 Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support, not just for the current year but also for future years. The basic principle is that authorities are free to invest as long as their capital spending plans are affordable, sustainable and prudent. This allows the Council the freedom to manage and control its capital programme and how it is financed. The key elements of control and management of capital finance are through:

- capital expenditure plans – the Council's Capital Programme;
- external debt - how the Council proposes to fund its Capital Programme;
- treasury management – the management of the Council's investments, cash flows, banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks.

5.3 To demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability the Council has in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy 2018/2019 to 2021/2022 is set out at Appendix 1. The Strategy forms a part of the Council's integrated revenue, capital and balance sheet planning.

5.4 All authorities must follow the latest prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process. The prudential and treasury management indicators have been prepared for the financial year 2018/2019, taking into account all matters specified in the code. Regular monitoring will take place during the year and reports made to Cabinet to show the Council's performance and compliance with these indicators as part of the quarterly capital review reports as appropriate.

5.5 All of the indicators together with background information to these indicators and what they are seeking to assess, are detailed in Appendix 5 in full compliance with the code.

5.6 Regulations came into force on 31st March 2008 which requires local authorities to repay an element of its capital financing requirement each year through a revenue charge known as the Minimum Revenue Provision (MRP). Local authorities have a statutory requirement to make a prudent level of provision and to have regard to Department for Communities and Local Government (DCLG) guidance when assessing its MRP. DCLG are consulting on revisions to their MRP guidance for accounting periods starting on or after 1st April 2018 and this proposed revised guidance has been considered when setting the MRP policy for 2018/2019. Authorities must set, each year, an amount of MRP it considers prudent. It is also recommended that an annual statement of its policy on making a MRP in respect of the following financial year is submitted to full Council for approval.

5.7 Local authorities have significant discretion in determining the level of MRP which they consider to be prudent. The Council's MRP policy was reviewed as part of the budget setting process for 2017/2018 where it was determined that had the annuity basis used to calculate MRP, that was introduced from 2015/2016, been adopted from 1st April 2008 (being the date when regulations came into force) around £43.5m less MRP would have been charged between 1st April 2008 and 31st March 2016. Council approved that the £43.5m overprovision of MRP in previous years be used to reduce MRP for 20 years from 2016/2017 by a fixed amount of £2.176m each year until 2036/2037. Phasing over 20 years is the time period that the Government specify for expenditure to be treated as capital expenditure by virtue of direction under section 16(2)(b) of the 2003 Act. This is considered prudent, as taking previous overpayments over this longer period slows the increase to the Council's capital financing requirement, and therefore interest charges, whilst still giving additional certainty to the Council's debt charges budget. The proposal assisted the Council in addressing the impact of funding reductions as described in the Council's MTFS at that time.

5.8 It is proposed the Council continue the MRP policy used in 2017/2018 and a recommended Minimum Revenue Provision Statement for 2018/2019 for the Council is set out in Appendix 6.

6. Treasury Management

6.1 General

Treasury Management is defined as "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.2 Statutory requirements

The Local Government Act 2003 (the Act) requires the Council to:

- adopt a Treasury Management Policy Statement (detailed in Appendix 7),
- to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments, and giving priority to the security and liquidity of those investments (set out in Appendix 8).

The Department of Communities and Local Government 'Guidance on Local Government Investments', is currently being updated and subject to a consultation with results planned to take effect from 1st April 2018. The Chartered Institute of Public Finance and Accountancy (CIPFA) updated its Treasury Management in the Public Services Code of Practice in December 2017 (previously updated November 2011). The Council are statutorily required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy and are taking proposed changes into account. Any variations considered necessary to the TMPS and TMSS resulting from the outcome of the consultation will be reported to future Council meetings.

6.3 CIPFA Code of Practice requirements

The Council continues to fully adopt and to re-affirm annually its adherence to the updated CIPFA Code of Practice on Treasury Management.

The primary requirements of the Code include that:

1. The Council will create and maintain, as the cornerstones for effective treasury management:
   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement is detailed in Appendix 7 and the TMPs follow the recommendations contained in Sections 6 and 7 of the Code, subject only to minor variations where necessary to reflect the particular circumstances of the Council and these do not result in the Council materially deviating from the Code's key principles.

2. The Council will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year ahead, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Executive Director of Corporate Services, who acts in accordance with the organisation's Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council's Audit and Governance Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6.4 **Treasury Management Strategy Statement for 2018/2019**

6.4.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments in 2018/2019.

6.4.2 There are no major changes being proposed to the overall Treasury Management Strategy in 2018/2019, which maintains the careful and prudent approach adopted by the Council in previous years. Particular areas that inform the strategy include the extent of potential borrowing included in the Council's capital programme, the availability of borrowing, and the current and forecast global and UK economic positions, in particular forecasts relating to interest rates and security of investments.

6.4.3 The proposed Treasury Management Strategy Statement for 2018/2019 is set out in Appendix 8 and is based upon the views of the Executive Director of Corporate Services, supplemented with money market data, market information and leading market forecasts and views provided by the Council's treasury adviser, Link Asset Services.

6.4.4 The strategy is subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate. The Council's performance for 2017/2018 using the prudent treasury management strategy adopted shows that the current average rate of borrowing at 3.26% is low in comparison with other local authorities whilst the current rate earned on investments at 0.62% is higher than the benchmark rate of 0.17%. Market conditions are under constant review so that the Council can take a view on the optimum time to carry out further borrowing or debt rescheduling.

7. Reasons for Decision

7.1 To comply with statutory requirements.

8. Alternative Options

8.1 No alternative options are proposed.

9. Impact Analysis

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

10. List of Appendices

10.1 Appendix 1 - Capital Strategy 2018/2019 to 2021/2022
Appendix 2 - Capital Commitments into 2018/2019
Appendix 3 - Capital Programme 2018/2019 New Starts / Additional Investments
Appendix 4 - Capital Programme 2017/2018 to 2021/2022
Appendix 5 - Prudential and Treasury indicators 2018/2019 to 2020/2021
Appendix 6 - Minimum Revenue Provision Policy Statement 2018/2019
Appendix 7 - Treasury Management Policy Statement
Appendix 8 - Treasury Management Strategy Statement for 2018/2019

11. Background Papers

Cabinet Report – Capital Programme Planning 2018/2019 to 2021/2022

Appendix 1

Capital Strategy 2018/2019 to 2021/2022

1. INTRODUCTION

1.1 The aim of the Sunderland City Council Capital Strategy is to provide a framework within which the Council's capital investment plans will be prioritised and delivered. It has been prepared over a four year time frame from 2018/19 to 2021/22. Recognising that there is uncertainty, especially over Local Government Finance and EU funding in later years, the strategy focuses on 2018/19 and 2019/20 in more detail.

1.2 The Capital Strategy is driven by the Council's Corporate Plan, which sets out the priories for the City:

- **Regenerating the city**
  - Growing the economy
  - Improving education and skills
  - Improving Health and Wellbeing

- **Safeguarding our Residents**
  - Supporting vulnerable children and families
  - Supporting vulnerable adults and carers
  - Building resilient communities

- **Future council**
  - New ways of working and collaboration
  - New ways of delivering services

Further detail on how the Capital Strategy addresses these priorities is set out at section 4.

1.3 The Capital Strategy forms a key part of the Medium Term Financial Strategy (MTFS) and Revenue Budget planning.

1.4 The Council's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). The Code is issued and maintained by the Chartered Institute of Public Finance and Accountancy. Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes, providing that their capital spending plans are affordable, sustainable and prudent. The Councils longer term financial needs alongside a projection of forecast external debt and borrowing are detailed within the Prudential and Treasury Indicators 2018/2019 to 2020/2021 and within the Treasury Management Strategy Statement.

2. OBJECTIVES

2.1 The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that enables proposed new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities set out in the Council's Corporate Plan;
- ensure prioritisation of projects that focus on delivering a number of the long term benefits contained in the corporate plan;
- set out how the Council identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through an appraisal mechanism;
- provide a long-term view of capital expenditure plans and risks faced by the Council over the life of assets;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area, whilst minimising the on-going revenue implications of any such investment;
- provide a basis for the projection of external debt and provision for repayment of that debt over the life of the underlying debt based on the approved capital programme and other capital resources available;
- identify the resources available for capital investment over the longer term;
- ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return, confirming that knowledge and skills available to the Council are commensurate with the Council's investment risk appetite. A detailed Investment strategy will be prepared within a wider regeneration framework and reported back to Cabinet and Council in due course;
- establish effective arrangements for the management and monitoring of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.

3. GOVERNANCE OF THE CAPITAL PROGRAMME

3.1 To ensure that available resources are allocated optimally and deliver value for money, capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the MTFS.

3.2 New programmes of expenditure are appraised alongside grant allocation programmes following a defined process.

3.3 The Council has a mechanism in place which seeks to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Council's aims. These include:

- Democratic decision-making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme. These processes include:

    - Full Council, which is ultimately responsible for approving the Capital Strategy, the Treasury Management Strategy and the Capital Programme;
    - The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the Capital Programme. The Cabinet also monitors delivery of the capital programme;
    - Scrutiny Coordinating Committee who consider the programme of new starts for inclusion in the Capital programme and review the MTFS and make recommendations to Cabinet where appropriate;
    - The Audit and Governance Committee which is responsible for monitoring the Treasury Management Policy and Strategy, including prudential indicators and can make recommendations to Cabinet and Full Council;
    - All projects which progress follow the requirements of the constitution and financial regulations including Financial Procedure Rules and Procurement Procedure Rules.

- Officer Groups which bring together a range of service interests and professional expertise. These include:

    - The Chief Officer Group (COG) which has responsibility for the strategic development, management and monitoring of the capital programme directly and through a number of sub groups including Economy & Place Senior Management Team and People's Senior Management Team;
    - Directorate Management Teams overseeing and approving business cases for investments prior to sign off by finance and legal for submission to COG and Cabinet for consideration;
    - Specific Programme and Project boards with wide ranging membership are also created as appropriate to oversee significant capital development projects as required.

3.4 For new projects and programmes business cases are submitted that include capital investment, repayment mechanisms, revenue impacts and full lifetime costings. These are reviewed and appropriate recommendations made to COG, prior to inclusion in a cabinet report to take the project forward under the constitution. New projects are approved either as part of the annual Capital Programme process, or during the year as new requirements or opportunities emerge which will also require COG and Cabinet approval.

3.5 Monitoring of the programme will include expenditure profiling and the delivery against timetable for each project. This in turn informs the debt cost of projects and the associated revenue impacts.

3.6 Quarterly reports are submitted to Cabinet that identify changes to this programme to reflect:

- New resource allocations;
- Slippage and acceleration in programme delivery;
- Programmes reduced or removed;
- Virements between schemes and programmes to maximise delivery;
- Revisions to expenditure profile and/or funding to ensure on-going revenue costs are minimised;
- Revisions to timelines and significant changes in anticipated outcomes.

3.7 The Council will need to ensure that strong partnership arrangements are in place to enable truly collaborative working. This includes the key partnerships of the Tyne and Wear City Region, North East Combined Authority and North East Local Enterprise Partnership.

4. CAPITAL PRIORITIES

4.1 The council's capital priority areas are aligned to the Corporate Plan 2016-2020. The use of resources will seek to maximise the most positive impact on these priorities. The priority areas are:

4.2 Regenerating the City

4.2.1 Growing the economy

The council is focused on securing Sunderland's long term future, and encouraging inward investment, advanced manufacturing and the development of hi-tech industries and new employment opportunities. A spread of action activities, that reflect the area within which the council is able to most positively deploy its capital resources, form the core focus of this aim. In doing so these contribute towards City Council funding in the longer term in the form of additional council tax, new homes bonus, business rates or land sale receipts, so contributing to the future sustainability of Council services.

Examples include:

- Encouraging key sector growth through the delivery of the International Advanced Manufacturing Park and the Port Enterprise Zone.
- Support to local businesses such as via economic development grants and the securing of major events such as Tall Ships 2018 with associated Council investment.
- Regenerating the city centre through the Vaux site, Sunderland Station and the Investment Corridors, as well as strategic acquisitions to support a City Centre investment strategy.
- Infrastructure improvements including the new Wear crossing, Sunderland Strategic Transport Corridor 3 (SSTC 3), Northern Gateway, Sunderland South Growth Area, Strategic Frontage 3 coastal defence and on-going highways, bridges and local transport maintenance/improvements.
- Housing delivery with Sunderland Homes Limited supporting housing delivery and investment on behalf of the Council.

4.2.2 **Improving skills and education**

It is the Corporate Plan aim that all children, young people and adults, wherever they live or work in Sunderland and regardless of their background or circumstances, should benefit from the best possible education and training opportunities in a safe and supportive environment that will allow them to thrive at every stage and in all aspects of their lives.

The council also has a statutory duty to ensure that there are sufficient school places in the City.

Examples of investment to achieve this aim include:

- Increasing pupil places to meet needs from housing growth, such as the planned school extensions as part of the South Sunderland Growth Area.
- Ensuring schools have a healthy and safe environment such as renewal/improvement of heating systems, roofs and windows in various schools.

4.2.3 **Improving Health and Wellbeing**

The Council aims to enable and support individuals, families and communities to enjoy much better health and wellbeing, with less reliance on the public sector in the longer term.

Current examples include:

- Improvement of facilities including the creation of a new sustainable model for football facilities based around (‘3G’) artificial turf pitches on identified Hub sites, providing opportunities for community participation, via the Park Life project.
- Improvement of cultural offerings including the redevelopment of Hylton Castle to bring it back into use as a community-led heritage visitor centre.

4.3 **Safeguarding our residents**

The Corporate Plan priorities in this area are:

- Supporting vulnerable children and families – providing services that help prevent and reduce the risk and harm to vulnerable children and services that will ensure the best possible outcomes for all our children, young people and families.
- Supporting vulnerable adults and carers – supporting vulnerable people to help them live as independent, healthy and active a life as possible.
- Building resilient communities – continuing to work collaboratively to build community capacity across the city.

Capital investment to support this approach includes:

- Replacement of the Children’s and Adults Social Care case management system to support front line practitioners in discharging their professional duties to vulnerable children and adults in a more efficient and effective manner.
- Enabling vulnerable people to remain in their homes for longer by provision of grants to support physical adaptations to properties and also by provision of assistive technology to transform service delivery, increase staff productivity and generate savings.

4.4 Future Council

The Council must focus on the services it needs to provide and make sure we are as efficient as possible in doing so; ‘invest to save’ projects will be utilised where necessary to achieve this. We need to support innovation and collaborative ways of working to make sure the people in greatest need are supported. More must be done to address demand pressures and build individual and community resilience. This will include:

- Refreshment of the Council’s ICT infrastructure to support transition to new planned and on demand offerings.
- Provision of more efficient Council buildings and infrastructure including use of modern technology such as solar pv’s, battery storage and LED lighting.
- Improved customer service provision including the new customer services technology platform to improve the quality and accessibility of customer services.

The Asset Management Plan (AMP) identifies significant backlog maintenance issues across the Councils property portfolio. The AMP identifies the necessary investment needed to bring the remaining asset stock up to current standards which would require a level of investment that is currently unaffordable. Given the Councils priority is to dispose of any surplus assets then the limited capital resources available via grant, capital receipts and private sector are prioritised to maximise outputs with minimal on-going future revenue costs.

5. FUNDING APPROACH

5.1 The council will continue to take a commercial approach to securing capital investment in the city in order to deliver growth and jobs. The council will increasingly work with partners to continue to invest in the regeneration of the city to maximise the use of resources available and delivery of outcomes. This in turn will help maximise income available to the city through council tax, business rates and new homes bonus.

5.2 There are a range of potential funding sources which can be generated locally either by the Council itself or in partnership with others. The Council continues to seek new levels of private sector investment to match against its capital programme, this may be additional capital receipts from land sales, joint funding opportunities across the private sector or City Region approved funds on a wide range of projects.

5.3 The strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFS. This helps ensure that each business case has a robust self-sustaining financial model that delivers on the wider outcomes of the strategy.

5.4 The main sources of capital funding are summarised below:

5.4.1 Central Government and Local Enterprise Partnership

- Grants are allocated in relation to specific programmes or projects and the Council seeks to maximise such allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives and agendas but which address priority needs in the City.
- The majority of “planned” capital expenditure for maintenance of transport infrastructure, school buildings and provision of Disabled Facilities are provided by appropriate specific grants.

5.4.2 Leverage of External Funding

The council continues to explore and maximise external funding opportunities to support its core priorities. Significant investment has been secured to date from central government and regional funds (i.e. Local Growth Fund) to support the current capital programme, namely; the International Advanced Manufacturing Park (IAMP), Sunderland Strategic Transport Corridor Phase 3 (SSTC3), Vaux Phase 1 and the Port of Sunderland Enterprise Zone. With the regional Local Growth Fund now fully committed new funding opportunities are beginning to emerge.

The Governments 2016 Autumn Statement announced the new National Productivity Fund that will add £23 billion in high value investment from 2017/2018 to 2021/2022. The Fund is allocated across a number of priority areas, including housing (for example, the Housing Infrastructure Fund launched in July 2017), research and development, and economic infrastructure including transport. The subsequent Industrial Strategy, launched in November 2017, provides an overview of policy priorities and indicative budgets for investment in transport, housing and digital infrastructure, research and innovation and business finance. Working with public and private partners, the council will continue to identify and develop local project priorities that can secure new investment from these funding opportunities.

In December 2017, the EU and the UK Government agreed that the EU Structural Funds will continue to operate as normal in the UK up until the end of 2020.

Opportunities to access EU funding programmes will therefore continue for the next 2-3 years until the remaining funds are fully committed. While the above agreement provides reassurance on the NELEP area's £437m ESIF allocation for 2014-2020, local government and regional partners continue to lobby for a UK successor programme that will operate beyond 2020 for which there is currently limited information.

The 2017 Conservative Manifesto promised that the Government would "use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy." Development of the UK Shared Prosperity Fund is being led by the Department for Communities and Local Government.

5.4.3 Developer Private Funding

- The Council formed a Local Asset Backed Vehicle (Siglion) in November 2014. Early focus is on developing the three priority regeneration sites of the former Vaux brewery, Chapelgarth and Seaburn.

- In 2015 the Council formed the Sunderland Lifestyle Partnership with Sports and Leisure Management Ltd. This partnership continues to progress investment in the expansion and refurbishment of gym and leisure facilities across the City. Major works to date have been completed at Silksworth Tennis Centre, the Aquatic Centre and Raich Carter. Further developments will continue, with improvement works planned in 2018/2019 at Silksworth Ski Centre.

- Private sector led development will continue to be sought towards the provision of public or private assets or facilities. The City Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. It will also continue to work with the CCG, Health providers and other public agencies to consider projects that are to the mutual benefit of all parties.

- In some cases contributions are received in order to mitigate the impact of their development on communities and often referred to as Section 106. These contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects. Developers may also contribute to Highways Infrastructure through section 38 and 278 agreements to facilitate their development.

- The Council is committed to working with partners in the development of the City and its services. Various mechanisms provide opportunities to enhance the Council's investment potential with support and contributions from other third party and local strategic partners. These may range from commissioning / facilitating others to develop services in the City; funding for regeneration projects; and through match funding, joint funding of developments.

5.4.4 Internal funding

- Prudential "unsupported" borrowing

  Under the Prudential Code the Council has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded, in accordance with the annually approved Minimum Revenue Provision Policy, either from the project returns or upon agreement to include in the MTFS debt charges estimates. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing does provide an option for funding additional capital development but one which has to be affordable each year from within the revenue budget or from generating additional on-going longer term income streams or efficiency savings.

  Given the pressure on the Council's revenue budget, prudent use has been made of this discretion in cases where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes which provide a net return over and above the borrowing cost. The Council will continue to consider on a cautious and prudent basis the extent to which prudential borrowing may be undertaken to fund, new capital investment, which generates returns over and above the revenue costs of the debt, in accordance with an agreed Investment Strategy.

- Capital receipts from asset disposals

  The Council has a substantial property estate, mainly for operational service requirements and administrative buildings. The disposal strategy within the Asset Management Plan identifies properties which are surplus to requirements and which can be disposed of.

  Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. As part of its property rationalisation programme the Council is marketing sites when it is felt to be the appropriate time in order to achieve best value and help support operational efficiencies. The Strategy includes the continued proposed use of capital receipts to support costs arising from implementing the Council's savings programme, in accordance with Government guidance on the availability of flexibility around the use of capital receipts for transformation purposes through to April 2022. This will ensure the Council has maximum flexibility in funding options available to meet any such costs at outturn. The position will be kept under review throughout the year and final decisions on funding options will be made at outturn, in light of the overall corporate position, actual capital receipts realised and available earmarked reserves.

The Council will continue to maintain a policy of not committing receipts in advance of realisation and will not ring-fence the use of such capital receipts to fund new investment in specific schemes or service areas, but instead subject to any claw back provisions, to allocate resources in accordance with key aims and priorities.

While the Council will not commit receipts in advance of realisation it will maintain an indicative programme of sales of assets into future years against which progress will be monitored and managed.

Receipts realised will be used to assist the City Councils long term financial position. This will include appraisal of the options to maximise revenue benefits, this could include:

- Repayment of existing debt;
- Mitigating requirements for future borrowing requirements in delivering the capital programme priorities;
- Funding of Transformation Projects that will deliver efficiencies;
- Funding additional priorities.

- Capital Reserves

  Capital reserves are currently fully committed in support of the current capital programme. Opportunities for the creation of additional capital reserves will be considered in light of the outturn funding position each financial year.

- Lease finance

  Where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment and there is a robust business case, then the option of leasing may be considered where this provides best value. The financing of expenditure by lease needs to take into account:

  - Value of expenditure.
  - Residual value.
  - Life span of equipment matches the funding proposed.
  - The equipment to be replaced is part of a rolling programme that covers the whole service area or by type of equipment.
  - The Council will only utilise operational leases for purchase of minor equipment, IT and vehicles when supported by an appropriate robust business case.

- Revenue

  Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). However, the general pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may be exercised as a source of capital funding.

Council resources will be allocated to programmes based on asset lives to manage the long term yield and revenue implications. Capital receipts will be focused on those assets with short term life span (e.g. vehicles and IT investments) and the unsupported borrowing on long term assets (e.g. land and buildings).

5.4.5 Alternative Sources of Financing

Enterprise Zones:

As at 2018 Sunderland currently have three live Enterprise Zone sites, A19 Low Carbon Zone, land at the Port of Sunderland and IAMP Phase 1. The Government’s Enterprise Zone model allows all business rates growth generated by the Enterprise Zone to be kept by the relevant local enterprise partnership (LEP) for a period of 25 years. To unlock sites the LEP has approved a model of forward funding necessary infrastructure work, whereby local authority borrowing is financed through the future flow of business rates growth receipts.

Tax Incremental Finance (TIF):

Tax increment financing (TIF) permits local authorities to borrow money for infrastructure projects against the anticipated increase in tax receipts resulting from the infrastructure. Opportunities for TIF arrangements will be considered as appropriate and, where agreed to be pursued, arrangements will be negotiated and agreed with Central Government.

6. BALANCED PORTFOLIO APPROACH

6.1 The Council will assess its overall approach to capital investment. This will reflect those investments made into the delivery of Council Services and those designed for wider economic basis. A detailed Investment strategy will be prepared within a wider regeneration framework and reported back to Cabinet and Council in due course.

Appendix 2

Current Approved Capital Programme Commitments from 2018/2019 to 2020/2021

Project	Existing Capital Programme		
	2018/2019	2019/2020 to 2020/2021	Total
	£m	£m	£m
International Advanced Manufacturing Park (IAMP)	37.254	42.651	79.905
SSTC3 Road	11.111	38.963	50.074
Northern Gateway	4.286	0.000	4.286
Other Transport Schemes (inc NPIF)	3.266	2.100	5.366
Park Life - FA Football Hubs	10.000	2.000	12.000
Port Enterprise Zone	10.200	0.000	10.200
Vaux Phase 1	6.300	0.000	6.300
LED Street Lighting Phase 2	3.300	2.900	6.200
Investment Corridor	1.078	3.315	4.393
A19 Ultra Low Carbon Enterprise Zone	3.947	0.000	3.947
Leisure Facility	3.804	0.000	3.804
Railway Station including Public Realm	0.408	2.850	3.258
Solar PV Battery Storage	2.937	0.000	2.937
Roker Park Improvement	0.052	2.868	2.920
Pilot Housing Delivery Project	2.600	0.000	2.600
Hylton Castle Redevelopment	2.335	0.000	2.335
Strategic Land & Property Acquisitions	2.000	0.000	2.000
Chester Road - Highways	2.000	0.000	2.000
ICT	1.887	0.000	1.887
Public Realm - former Crowtree Road Leisure Centre	1.702	0.000	1.702
Minster Quarter Access Road	1.496	0.000	1.496
Moorside Data Centre	1.080	0.000	1.080
Flood Mitigation & Coastal Protection	0.816	0.254	1.070
Other Projects (<£1m)	4.908	0.375	5.283
TOTAL CURRENT PROGRAMME	**118.767**	**98.276**	**217.043**

Appendix 3

Capital Programme 2018/2019 to 2021/2022 – New Starts / Additional Investments

1. Other Capital New Start / Additional Investment Proposals 2018/2019 to 2021/2022

The following projects are proposed for inclusion in the 2018/2019 capital programme. Gross amounts represent the total estimated project cost, and net amounts represent the estimated net increase in Council financial investment after taking into account external funding or existing capital programme provision.

1.1 Strategic Regeneration New Start Proposals

The following projects are investments that are required to support physical infrastructure works and inward investment in the city:

1.1.1 South Sunderland Growth Area – School Extensions £2.000m project cost in 2019/2020

Sunderland South Growth Area plans will generate demand for school places growth with 2 school extensions (105 places each) required to meet demand in advance of a new school requirement in the longer term. The upfront investment will be recouped through S106 over the longer term. Extensions are planned to St Pauls CE VC Primary and Benedict Biscop Primary Academy.

1.1.2 South Sunderland Growth Area – Ryhope Doxford Link Road £5.000m project cost (£1.000m in 2019/2020, £3.000m in 2020/2021 and £1.000m in 2021/2022)

Investment in the road infrastructure which will support new homes in SSGA in advance of S106 funding. SSGA is to provide; 4,000 family and executive homes and will result in council tax growth, New Homes Bonus, 300 affordable homes and significant construction job creation/safeguards.

1.1.3 A19/A690 Doxford Park Junction Improvements £1.919m gross project cost, £0.480m net, in 2018/2019

Capacity improvement measures at the A19/A690 Doxford Park junction including upgrade of the A19 southbound off-slip road. The proposals will support delivery of approaching 1,000 dwellings prior to 2021 and a further 4,000 dwellings subsequently, facilitating SSGA. The net position reflects match funding requirement for Highways England funding bid.

1.1.4 Strategic Frontage 3 – Coastal Defence £10.500m gross project cost, £5.936m net (£1.575m in 2018/2019, £5.250m in 2019/2020, £3.150m in 2020/2021 and £0.525m in 2021/2022)

Coastal defence scheme situated around east of the port which will protect the Ports infrastructure. The net cost reflects a potential funding gap should ERDF bid not be successful.

1.1.5 Sunderland Seafront Trust - Development of seafront assets £1.100m gross project cost, £0.500m net (£0.100m in 2019/2020 and £1.000m in 2020/2021)

The net project cost reflects the match funding requirement for Coastal Communities R5 bid, providing a total £1.1m fund for further development of sea front assets in conjunction with the Seafront Trust. The proposal is to bring into use vacant assets as commercial premises. The project is included on basis of match funding approval.

1.1.6 Seaburn Public Realm £0.325m project cost (£0.025m in 2018/2019 and £0.300m in 2019/2020)

Works will bridge the gap in previous public realm works and planned Siglion works at the Sea Front in front of Amusements at bottom of Dykelands Road. The scheme will include new paving, seating, and steps.

1.1.7 City Centre Regeneration £10.730m gross project cost, £4.790m net (£9.730m in 2018/2019 and £1.000m in 2019/2020)

Provision to support a City Centre Masterplanning investment strategy, allowing timely acquisitions of critical sites, in target regeneration areas. Resources are proposed to support strategic land and building acquisitions focusing on city centre regeneration. Any acquisitions will be supported by an approved Masterplan for the overall development area.

1.1.8 Provision for Economic Development Grants £2.100m project cost (£0.700m in 2019/2020, £0.700m in 2020/2021 and £0.700m in 2021/2022)

Provision for financial assistance for inward investment and job growth in order to lever in significant job creation and private sector investments. Growth areas including Vaux and IAMP may require assistance packages over coming years.

1.1.9 Increasing Access to Heritage through Technology and Other Solutions - Development of local heritage centre £3.500m gross project cost, £0.500m net (£2.500m in 2019/2020 and £1.000m in 2020/2021)

Investment to provide technological and other solutions which will improve ready access to the heritage offer. This will include a Local Studies and Heritage Centre within Sunderland Museum and Winter Gardens with digital facilities including archive storage, shelving, touchdown spaces and exhibition displays. Included within the capital programme on basis of the success of external funding proposals through HLF, Trusts and Foundations.

1.1.10 Sunderland Illuminations £0.150m project cost in 2019/2020

Purchase of lighting features for the 2019 event, to support the Seafront offer and local traders, attracting over 100,000 visitors annually.

1.1.11 Former Usworth Comprehensive School Site Enabling Works £0.510m project cost in 2018/2019

Site enabling works to facilitate the proposed residential development of land. The enabling works will consist of provision of a new separate access road to the Sunderland College site. Also required is the relocation of College sports facilities to their Sunderland campus.

1.2 Invest to Save New Start Proposals

The following projects are investments that will generate cost savings, enable additional income generation or protect existing income generation:

1.2.1 Assistive Technology in Adult Social Care £1.050m project cost (£0.300m in 2018/2019, £0.250m in 2019/2020, £0.250m in 2020/2021 and £0.250m in 2021/2022)

Investment in Assistive Technology (AT) to delay vulnerable people requiring support and enabling them to remain in their own homes for longer. Research has shown use of AT can delay residential care by an average 8 months. Proposals include:

- Provision of demonstration showrooms and training facilities at the Independent Living Centre to showcase the 'art of the possible' for service users, including remote environmental control, activity monitoring systems, and voice activated personal assistants;
- Increased use of technology to transform service delivery and increase staff productivity and generate savings including e.g. provision of mobile technology for staff, and equipment to reduce 2:1 care requirements;
- Provision of show rooms to promote technological solutions to improve resident's independence.

Annual revenue budget savings estimated at £0.265m.

1.2.2 Derwent Hill (Bunkhouse, Campsite & Wheelchair Access) £0.305m project cost in 2018/2019

Investment in the development of a bunkhouse, additional campsite accommodation, and improved wheelchair access at Derwent Hill Education Centre. The investment will support the sustainability of Derwent Hill Education Centre through new and increased income streams, and meet client demands, including from schools, businesses and tourists.

1.2.3 Software Centre (Murton Street) Car Park £0.356m project cost in 2018/2019

Car parking provision has been a barrier to securing further occupants at the Software Centre. Provision of a 59 space car park will aid the centre offer, assist in increasing centre occupancy and generate additional income.

1.2.4 Roker Car Park Extension (Marine Walk) £0.150m project cost (£0.050m in 2018/2019 and £0.100m in 2019/2020)

Investment in an extension to the existing car park will create an additional 25 spaces and disabled coach parking, generating additional income of circa £0.025m p.a. Planned works will include improved signage, new bins and cycle parking.

1.2.5 Port Mobile Crane £2.876m project cost in 2018/2019

Purchase of an additional harbour mobile heavy lift crane to provide resilience to the Port's cargo handling operation with 2 of 3 existing cranes nearing end of their useful life. The Port's £6m turnover is dependent on its cargo handling business which has seen an 80% increase since 2010.

1.2.6 LED Lighting in Operational Buildings - Energy Efficiency £0.500m project cost in 2018/2019

The project will install energy efficient LED lighting at operational properties including Bunnyhill, Hetton Centre, the Crematorium and Derwent Hill. The project will be funded by 0% Salix loan which will be repaid using the first 5 years energy savings, with savings estimated at £0.100m p.a. thereafter benefitting the revenue budget.

1.2.7 Sunderland Museum and Winter Gardens Minor Works and Improvements £0.335m project cost in 2018/2019

There is a requirement to update the museum offer both from a visitor and service perspective, as well as a need to ensure best use of available resources. Works include maintenance and condition works, energy efficiency works and minor internal changes to maximise retail income generating opportunities. The investment will result in revenue budget savings estimated at £0.060m p.a.

1.3 Support for Front Line Service Delivery New Start Proposals

The following projects are investments to enable the efficient and effective operation of front line services:

1.3.1 Replacement Household Waste and Recycling Centre £5.000m project cost (£1.500m in 2018/2019 and £3.500m in 2019/2020)

There is dissatisfaction with the current household waste facility due to congestion. The current site is considered a blight as it is directly adjacent to the planned SSTC3 road. Planned locations for the new facility: city centre area for the main facility, with a further micro-site at Coalfields.

1.3.2 Refuse Collection Vehicle Fleet Replacement Programme £3.780m project cost in 2020/2021

Investment in the planned replacement of the fleet of 20 refuse collection vehicles at the forecast end of life. If not replaced, the increased repair requirements would impact on the reliability of the service and bring increased maintenance and running costs. Consideration will be given at time of purchase to electric / hybrid options.

1.3.3 Specialist Large Vehicle Fleet Replacement Programme £1.920m project cost (£0.873m in 2018/2019, £0.138m in 2019/2020, £0.489m in 2020/2021 and £0.420m in 2021/2022)

Investment in a four year programme of large specialist vehicle and plant fleet purchases in order to ensure most efficient use of resources. Consideration will be given at time of purchase to electric / hybrid options.

1.3.4 Redevelopment of Parsons £6.854m gross project cost, £5.627m net (£4.000m in 2018/2019 and £2.854m in 2019/2020)

Provision of one operational depot at Parsons, Washington to replace South Hylton House and Houghton (Jack Crawford House would be retained). The project would include provision for the alternative location for the salt barn currently located on the SSTC3 route. The project will generate estimated savings of £0.460m p.a via reduced maintenance and utility costs and enabling additional income generation.

1.4 Other Potential Invest to Save / Grant Funded Schemes

It is proposed that the Capital Programme includes headroom over the medium term to support capital spending for ‘invest to save’ schemes and also match funding for bids made for external funding. These are primarily in partnership with the private sector to support investment in the City and enable future strategic developments to take place and support the themes of the City’s 3,6,9 Vision. These schemes are still subject to negotiation/bids and will only progress subject to development of a detailed business case or external funding confirmation, at which point they will be reported to Cabinet and added into the Capital Programme. It is important to note that much of this investment is anticipated to be recouped through commercial arrangements over time and some investments are linked to the generation of savings to support the revenue budget.

2.0 Highways Capital Funding 2018/2019

2.1 The Government announced in 2013 that it would be making available £5.8 billion capital - £976 million each year – by the end of this parliament to tackle highway maintenance on the local highways network.

The Department for Transport (DfT) reviewed and revised the basis for allocating this funding to councils via a Funding Model for 2015/2016 to 2020/2021. In 2015, the DfT released details of the Incentive Fund scheme to reward councils who demonstrate they are delivering value for money in carrying out cost effective improvements. Each local highway authority in England (excluding London) was invited to complete a self-assessment questionnaire, in order to establish the share of the Incentive Fund they will be eligible from 2016/17, and included in the Highways Maintenance allocation, with reviews each year.

The North East Combined Authority (NECA) has received confirmation from the DfT on Integrated Transport allocations awarded to Tyne & Wear, Durham and Northumberland. These are for 2015/2016 to 2018/2019 with indicative allocations for the following 2 years; all years being the same allocations, but following a national top-slice of 43.7% from the 2014/2015 allocation transferred into the Local Growth Fund.

The 2015/2016 to 2018/2019 funding arrangements for each local authority in NECA had been agreed by the NECA Transport Group. For Sunderland the allocation is £1.606m, being an allocation from the Tyne & Wear funding as in previous years. There is also a top-slice from this and the above Highways Maintenance to fund a NECA transport team and a contribution to Urban Traffic Management Control (UTMC) centre, as well as provide for continuation of collaborative projects within the Tyne & Wear region.

The DfT continue to provide additional monies via the Pothole Action Fund and recently announced that a further £51m would be available nationally to repair potholes or prevent their formation. Sunderland's initial allocation for 2017/2018 was confirmed as £0.260m and the indicative additional allocation based on the £51m, is £0.199m, which can be utilised by end of 2018/2019. DfT also confirmed further funding of £75m nationally for 2018/2019, through the Pothole Action Fund, of which Sunderland's indicative allocation would be £0.280m.

2.2 The table below details the Highways Capital Funding announced for 2017/2018 to 2018/2019, and indicative allocations for 2019/2020 to 2020/2021.

	2017-18 £'000	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**
Highways Capital Maintenance	2,939	2,660	2,660	2,660
Highways Capital Maintenance – Incentive Funding *	248	554	554	554
Pot Hole Funding	260	479	Tbc	Tbc
Highways Integrated Transport	1,606	1,606	1,606	1,606
Nexus Allocation	42	42	Tbc	Tbc
National Productivity Investment Fund (NPIF) - Transport	932	3,360	Tbc	Tbc
Safer Roads Funding	210	Tbc	Tbc	Tbc
Total Transport	**6,237**	**8,701**	**4,820**	**4,820**

* The Council is currently meeting Level 3 requirements following completion of the self-assessment questionnaire submitted to DFT 2nd February 2018.

The total confirmed funding for transport schemes for 2018/2019 from new grants is therefore £8.701m.

Proposals for Highways Capital Programme New Starts 2018/2019

2.2.1 The proposed capital programme for 2018/2019, excluding funding for the on-going commitment in relation to the Sunderland Strategic Transport Corridor 3 (SSTC3) Road of £1.6m and the £3.36m NPIF funding for Northern Gateway, will leave **£3.741m** (£8.701m less £1.6m, less £3.36m) to support the following priorities:

- Pot holes maintenance - £0.479m.
- The structural maintenance of highways and bridges – £2.254m.
- Economic development and regeneration by managing congestion; support safe and sustainable communities by improving Road Safety and, improving access; address climate change by promoting sustainable travel - £0.966m (including £0.156m for the NECA Transport team & UTMC centre).
- Public transport infrastructure improvements, Nexus funded - £0.042m.

The use of funding of future years allocations will be considered at the appropriate time.

3.0 Health, Housing and Adult Services Capital Proposals 2018/2019

3.1 The Better Care Fund allocation for 2017/2018 is £3.085m, with all this funding supporting Disabled Facilities Grants. In December 2017, further funding of £0.258m for Disabled Facilities Grants was announced.

The Better Care Fund allocations for 2018/2019 have yet to be confirmed. Upon funding confirmation, proposals will be reported back to Cabinet for approval.

4.0 Children's Services Capital Proposals 2018/2019

4.1 The table below details the Children's Services Government Grants announced for 2017/2018 onwards.

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Schools Condition Allocation	1,455	0	0	0
Education Basic Need	0	0	386	0
Schools Devolved Funding	388	0	0	0
Early Years (30hr childcare)	580	0	0	0
SEND	0	166	167	167
Total Children's Services	**2,423**	**166**	**553**	**167**

4.1.1 Schools Condition Allocation

The Schools Condition Allocations is provided to the Council for maintenance/improvement of Maintained schools. Academies and Voluntary Aided schools receive this funding direct from the Department of Education. As of January 2018 the Council has not yet received the value of its School's Condition Allocation for 2018/2019.

Separate to the above, the voluntary-aided sector is allocated grant funding (LCVAP - LA Co-ordinated VA Programme) based on pupil numbers, and reflecting the governors' 10 per cent contribution and eligibility for VAT for Schools Condition Allocation.

4.1.2 Basic Need
The Council remains the responsible body for the city's Basic Need funding. This funding is for all publicly funded schools in the city (including Academies, Free Schools and VA schools). Basic Need funding, although not ring fenced, is intended to ensure additional school places can be provided where needed. In recent years the Council has not received a Basic Need allocation. However, the Council will receive a £0.386m Basic Need allocation for 2019/2020.

4.1.3 Funding Availability from 2018/2019

Current allocations:
There is £0.627m Education Capital grants (Schools Condition Allocation and Basic Need), excluding the schools Devolved Formula Capital (DFC) grant from which schools will determine their own priorities from their allocations, that will be available from 2018/2019 for School Asset Management Priorities, projected to be brought-forward from 2017/2018. In addition there is other confirmed funding of £0.050m from S106, bringing total funding brought forward from 2017/2018 to £0.677m. The £0.677m, is not yet committed to projects and therefore available for new and emerging schools asset management priorities.

New allocations:
There is £0.166m Special Educational Needs & Disabilities (SEND) capital grant that will be available for 2018/2019. This Grant is to be used to increase capacity in the SEND sector. Further grants of £0.167m have been allocated to Sunderland for both 2019/2020 and 2020/2021, and use of these future years allocations will be considered at the appropriate time.

4.2 Proposals for Children's Services Capital Programme New Starts

4.2.1 The Council is committed to carrying out an on-going set of improvements across the maintained educational estate in the City. The focus of investment is health and safety, keeping buildings wind and watertight and thereby avoiding school closures. Upon confirmation of allocation for 2018/2019, priorities will be identified and reported to Cabinet as required.

4.3. Additional Potential Proposed Works

4.3.1 Work is underway to assess potential further increase of places for pupils on the Autistic Spectrum (ASD). At present, all the ASD provision in the City is at capacity. The Council has submitted an expression of interest to the DfE for capital funding to redevelop the former Bishop Harland CE Primary School site as a new 96 place 'all through' ASD setting.

The Council has now been provided with confirmation that its bid was successful. A new school is to be developed and delivered with a proposed 2020 opening date. The DfE have confirmed a funding rate of £1,623 per square metre for construction costs with the total scheme currently estimated to be between £5m and £7m, but DfE have yet to confirm the final total grant funding allocation. Upon confirmation, Cabinet will be requested to approve the project into the Capital Programme from the final funding package.

4.3.2 The balance of funding available for further investment is therefore £0.843m from the confirmed allocations up to 2018/2019 (£0.677m plus £0.166m for 2018/2019).

4.3.3 Upon confirmation of further funding allocations and completion of any proposals, capital investment requirements will be submitted to Cabinet for approval, where required.

Capital Programme

Summary of Programme 2017/2018 to 2021/2022

Expenditure by Portfolio	Gross Cost	Expend. to 31.3.17	Estimated Payments				
			2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Leader	196,943	36,336	46,876	63,915	26,385	23,431	0
Deputy Leader	6,885	2,269	1,649	2,967	0	0	0
Cabinet Secretary	48,412	14,852	9,072	20,688	1,400	1,700	700
Children's Services	18,197	6,952	8,051	1,194	2,000	0	0
Health, Housing & Adult Services	18,779	9,361	5,062	3,606	250	250	250
Public Health, Wellness & Culture	15,523	735	3,464	7,674	2,650	1,000	0
City Services	295,799	106,523	67,426	47,484	42,784	28,136	3,446
Responsive Services & Customer Care	949	892	57	0	0	0	0
TOTAL CAPITAL EXPENDITURE	**601,487**	**177,920**	**141,657**	**147,528**	**75,469**	**54,517**	**4,396**

CAPITAL PROGRAMME

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	80,752	81,142	22,552	17,708	1,788
Salix	6,175	4,880	2,700	200	0
Government Grants					
DoH - Grants General	68	0	0	0	0
DfE - School's Condition Grant	2,968	588	0	0	0
DFE - Early Years 30 Hour Free Child Care	580	0	0	0	0
DfE Basic Need Grant	589	39	0	0	0
DfE - SF Schools DFC Grant	1,016	0	0	0	0
DfT - Local Transport Plan (LTP)	4,695	5,482	0	0	0
DfT - National Productivity Investment Fund	932	3,360	0	0	0
Local Pinch Point (LPP)	30	0	0	0	0
DfT - Pothole Grant	260	479	0	0	0
Environment Agency Coast Protection	499	216	2,427	557	0
English Partnership /SHIP	1	195	0	0	0
BIG Coastal Communities Fund	12	0	0	600	0
Government Grants General	444	166	0	0	0
Local Growth Fund (LGF)	8,664	28,118	35,840	17,517	1,238
Department of Energy Climate and Change (DECC)	80	0	0	0	0
Better Care Fund Grant	3,343	0	0	0	0
DCLG-S31 City Deal	1,670	0	0	0	0
DFT - Safer Roads Funding	210	0	0	0	0
Highways England	0	1,439	0	0	0
Grants from Other Public Bodies					
Lottery - Heritage Lottery Fund (HLF)	751	1,811	4,700	1,000	0
European Regional Development Fund (ERDF)	13	1,469	0	0	0
Homes and Communities Association (HCA)	262	105	0	0	0
Nexus LTP	41	42	0	0	0
Sport England	150	0	0	0	0
Football Association	0	6,000	1,200	0	0
Historic England	99	0	0	0	0
Other External Funding					
School Governors Contribution	178	0	0	0	0
Homes and Communities (HCA)	153	0	0	0	0
South Tyneside Council	8,503	5,469	1,662	11,716	0
Nexus	492	408	2,600	0	0
Gentoo	100	0	0	0	0
Other Capital Contributions	64	46	0	0	0
Total External Sources	**123,794**	**141,454**	**73,681**	**49,298**	**3,026**
FROM INTERNAL SOURCES					
Revenue Contributions					
Strategic Initiative Budget	60	0	0	0	0
Directorate	406	0	0	0	0
Reserves					
Strategic Investment Reserve	3,380	2,399	50	0	170
Capital Priorities Reserve	3,828	100	0	4,164	780
Strategic Investment Plan Reserve	2,771	578	87	0	0
Stadium Park Transfer Reserve	859	0	0	0	0
S106 Reserve	732	118	0	0	0
Port Reserve	551	0	0	0	0
New Homes Bonus Reserve	375	217	0	0	0
Modernisation Reserve	521	194	4	0	0
HCA Riverside Reserve	464	0	0	0	0
Unutilised RCCO Reserve	377	0	124	0	0
Commercial & Development Reserve	0	0	886	566	0
Other Capital Reserves	113	0	0	0	0
Capital Receipts	3,426	2,468	637	489	420
Total Internal Sources	**17,863**	**6,074**	**1,788**	**5,219**	**1,370**
TOTAL FINANCING	**141,657**	**147,528**	**75,469**	**54,517**	**4,396**

LEADER
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Strategic Economic Development									
CP0126	Former Vaux Site Advance Site Works	Infrastructure works in advance of the development of the former Vaux site.	N Wood	1,466	1,158	308	0	0	0	0
CP0127	Strategic Land and Property Acquisition Provision	Acquisitions of land and buildings which are considered to be a strategic importance and would contribute towards the Council's regeneration priorities for the City.	N Wood	11,165	6,134	3,031	2,000	0	0	0
CP0136	A19 Ultra Low Carbon Enterprise Zone	Highway infrastructure works at the Enterprise Zone Site 3 to unlocks 90,000sq.m of developable floor space, generate potential 1,500 new jobs in the manufacturing industry along with private sector investment of £55m: Phase 1a works (Infiniti Drive) completed Dec 2015. Phase 1b works (A1290 realignment) substantially completed and opened to traffic Sept 2017. Phase 2 works (Infiniti Drive extension and Nissan Way widening) currently underway - expected completion July 2018.	M Jackson	24,378	15,335	5,096	3,947	0	0	0
CP0137	Sunderland Railway Station Contribution	Redevelopment of the railway station in conjunction with Nexus and Network Rail who will complete the detailed design and redevelopment of the above ground concourse to Sunderland Station.	M Jackson	3,000	0	492	408	2,100	0	0
CP0139	Investment Corridors	Infrastructure improvements in and around High Street West, including new street lighting and street furniture, new high quality paving materials and crossing upgrades to St Michael's Way. The Holmeside Masterplan will be completed and detailed designs commenced for public realm improvements in this area.	I Fairlamb	9,460	4,015	1,052	1,078	3,315	0	0
CP0208	Beacon of Light Contribution	Council contribution towards the SAFC Foundation of Light led project for the construction of an indoor events facility at Stadium Park. The project is due for completion in Spring 2018.	I Fairlamb	3,000	2,000	1,000	0	0	0	0
CP0266	Vaux Phase 1	Development of the first office building on the former Vaux site which will be 60,000 sq. ft. over 5 floors. In addition, infrastructure works of roads, footpaths and promontory will be undertaken.	N Wood	25,812	3,065	16,447	6,300	0	0	0
CP0288	Minster Quarter Access Road	Provision of a new access road that will provide a direct link from the Minster Quarter area onto St Mary's Way.	I Fairlamb	1,500	4	0	1,496	0	0	0
CP0336	Commercial Road Development	Enabling works (access highway works and drainage) to facilitate four development plots and property for Port.	N Wood	300	0	300	0	0	0	0
	Business Investment									
CP0203	Energy Masterplan & Feasibility Assessment (DECC)	A feasibility study to provide a city-wide understanding of current and future heat demands across industrial, commercial and domestic uses in Sunderland, offering an important evidence base for the council and partners to develop appropriate solutions for improved energy management consumption, and the identify the necessary energy infrastructure requirements for key strategic sites. This is due for completion in 2018.	V Taylor	120	0	120	0	0	0	0

LEADER
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Strategic Improvement Programmes									
CP0221	Railway Station Public Realm	As part of the wider Railway Station redevelopment public realm improvements will be undertaken to the area immediately in front of the station to provide an improved arrival and departure experience as well as ensuring the station is better integrated into the wider area.	I Fairlamb	750	0	0	0	750	0	0
CP0238	Keel Line - Viewing Platform Feasibility Study	Fees for feasibility study carried out by external consultant for The Launch at the former Vaux site	N Wood	100	75	25	0	0	0	0
CP0264	Public Realm - former Crowtree Road Leisure Centre	As part of the redevelopment of the former Crowtree Road Leisure Centre site for retail use, works will be undertaken to create a public space to the north of the site and landscaping works above the car park that will provide an improved link to Town Park.	N Wood	1,750	48	0	1,702	0	0	0
CP0334	Industrial Portfolio Improvement Works	An extension to Unit 11 Mercantile Road, Rainton Bridge Industrial Estate occupied by Lear Corporation (UK) Ltd and to formalise the position by the grant of a new lease.	N Wood	1,500	0	1,500	0	0	0	0
	Strategic Economic Development									
CP0142	International Advanced Manufacturing Park (IAMP)	Development of an International Advanced Manufacturing Park (IAMP) set to create over 5,000 jobs and attract over £400 million investment, building on links with Nissan to create an advanced manufacturing centre of excellence for the North East. IAMP is a joint venture between Sunderland and South Tyneside councils and is being jointly promoted by IAMP LLP, a JV company which includes both Local Authorities. IAMP LLP is bringing forward plans for “IAMP ONE” – the first phase of the project. Since IAMP LLP’s initial consultation, demand from occupiers has been stronger than originally anticipated. The company is therefore bringing forward an application for “IAMP ONE” ahead of a Development Consent Order application for later phases of the IAMP development.	P McIntyre	101,912	4,502	17,505	37,254	19,220	23,431	0
TOTAL CONTINUING PROJECTS				**186,213**	**36,336**	**46,876**	**54,185**	**25,385**	**23,431**	**0**
	Projects Commencing 2018/19									
	Strategic Economic Development									
CP0363	City Centre Regeneration	Provision to support a City Centre Masterplanning investment strategy, allowing timely acquisitions of critical sites, in target regeneration areas. Resources are proposed to support strategic land and building acquisitions focusing on city centre regeneration. Any acquisitions will be supported by an approved Masterplan for the overall development area.	N Wood	10,730	0	0	9,730	1,000	0	0
TOTAL PROJECTS COMMENCING 2018/19				**10,730**	**0**	**0**	**9,730**	**1,000**	**0**	**0**
TOTAL LEADER PORTFOLIO				**196,943**	**36,336**	**46,876**	**63,915**	**26,385**	**23,431**	**0**

LEADER
CAPITAL PROGRAMME

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	25,672	31,720	6,228	11,715	
Government Grants					
Local Growth Fund (LGF)	8,664	26,318	15,895		
Department of Energy Climate and Change (DECC)	80				
DCLG-S31 City Deal	1,670				
DFT - Safer Roads Funding	210				
Other External Funding					
Homes and Communities (HCA)	153				
South Tyneside Council	8,503	5,469	1,662	11,716	
Nexus	492	408	2,600		
Total External Sources	**45,444**	**63,915**	**26,385**	**23,431**	
FROM INTERNAL SOURCES					
Revenue Contributions					
Reserves					
Strategic Investment Reserve	1,308				
Capital Priorities Reserve	40				
New Homes Bonus Reserve	59				
Unutilised RCCO Reserve	25				
Total Internal Sources	**1,432**				
TOTAL FINANCING	**46,876**	**63,915**	**26,385**	**23,431**	

DEPUTY LEADER
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	ICT Projects									
CP0117	Revenue and Benefits System Phase 2	Investment in customer self-service options in relation to Revenues and Benefits Services.	L St Louis	364	327	37	0	0	0	0
CP0123	Electronic Document Management	The introduction of work flow, version control, storage and classification of documents and records.	L St Louis	500	285	21	194	0	0	0
CP0181	IT Developments	A programme of activities to improve and better secure underlying ICT infrastructure to enable efficiencies within the Council.	L St Louis	693	626	67	0	0	0	0
CP0192	Wider Network Upgrade	Completion of a rolling programme to upgrade the power back up systems (uninterrupted power supply) of essential network equipment.	L St Louis	132	130	2	0	0	0	0
CP0286	Refresh of Essential Core ICT Infrastructure	A programme of activities aligned to a full review and rationalisation of the ICT estate to refresh end of life equipment and begin to transition to new on demand offerings.	L St Louis	3,953	897	1,363	1,693	0	0	0
CP0307	Cash Receipting System	Essential upgrade to the Cash Receipting System.	K Davison	43	4	39	0	0	0	0
CP0340	Moorside Data Centre	Improvements to the electrical delivery systems, power generation capabilities and a refresh of the cooling infrastructure.	L St Louis	1,200	0	120	1,080	0	0	0
TOTAL CONTINUING PROJECTS				**6,885**	**2,269**	**1,649**	**2,967**	**0**	**0**	**0**
TOTAL DEPUTY LEADER PORTFOLIO				**6,885**	**2,269**	**1,649**	**2,967**	**0**	**0**	**0**

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Salix	120	1,080			
Total External Sources	**120**	**1,080**			
FROM INTERNAL SOURCES					
Revenue Contributions					
Reserves					
Strategic Investment Reserve	47	1,415			
Strategic Investment Plan Reserve	862	278			
Modernisation Reserve	521	194			
Unutilised RCCO Reserve	11				
Other Capital Reserves	2				
Capital Receipts	86				
Total Internal Sources	**1,529**	**1,887**			
TOTAL FINANCING	**1,649**	**2,967**			

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Port									
CP0145	Port Infrastructure	Investment in infrastructure, plant and equipment, in order to support the on-going efficient operation of the Port, including addressing minor plant & machinery investment, general infrastructure and health and safety requirements as they arise.	M Hunt	1,169	294	375	250	250	0	0
CP0311	Port Remediation Works - Endurance Park	Surface infrastructure works to the cargo laydown area that will ensure the Port can continue to meet the requirements of contracts for the handling and storage of steel products, equipment for the offshore renewable energy sector and also to allow for the loading/unloading of goods to/from rail wagons.	M Hunt	2,400	0	2,400	0	0	0	0
CP0313	Port Enterprise Zone	20 acres of land on two sites in the Port of Sunderland have been approved to form part of the North East's next wave of Enterprise Zones (round 2). Provision of enabling works will provide a development platform to prospective inward investors looking to take advantage of a port location and its multimodal operational facilities in sectors such as advanced manufacturing, automotive, construction and offshore renewable energy.	M Hunt	10,500	0	300	10,200	0	0	0
CP0337	Port - Greenwell Open Storage Area	Surface infrastructure works that will allow for the Port's Liebherr harbour mobile cranes to operate on the full length of the river berth, therefore increasing the Port's operational quay capacity for cargo handling operations and also to provide additional cargo laydown for bulk, project and unitised cargoes.	M Hunt	275	0	275	0	0	0	0
	Planning and Land Use									
CP0096	Old Sunderland Townscape Heritage Initiative	THI Partnership grant scheme with HLF, provided grants to property owners / tenants to repair, restore and return historic buildings to use, including former Orphanage restored to create office and community based facilities. Completed in 2017.	I Fairlamb	2,339	2,294	45	0	0	0	0
	Seafront									
CP0100	Seafront - Marine Walk Masterplan Ph2	Phased infrastructure improvements to Roker and Seaburn seafronts to enhance the visitor environment, including: Public realm upgrades to Seaburn and Roker promenades, Roker pod flexible spaces, new pier gates, feature lighting and new street furniture, new play equipment and directional/interpretation signage (Roker), improvements to Marine Walk southern car park, highway improvements, public realm upgrades and traffic management measures to Whitburn Road (Seaburn), and installation of electricity plug-ins.	I Fairlamb	4,444	4,439	5	0	0	0	0

CABINET SECRETARY
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0111	Roker Pier and Lighthouse	Lighthouse restoration works and provision of new tunnel entrance. All works now complete and to be opened up as a visitor attraction, to be managed by volunteers from the Roker Heritage Group.	I Fairlamb	2,212	1,807	405	0	0	0	0
CP0222	Seafront - Marine Walk Masterplan Ph3	Installation of carriageway improvements at Marine Walk lower promenade, construction of new toilet block and associated alterations to Marine Walk car park.	I Fairlamb	655	634	21	0	0	0	0
CP0223	Seafront Lighthouses	Works to the lighthouse at Seaburn, completed in 2016. New railings and the restoration of railings on Roker Pier, completed in 2017.	I Fairlamb	1,175	109	1,066	0	0	0	0
CP0245	Seafront - CCF Round 3	Infrastructure improvements to Cliffe Park and Recreation Park to improve capacity for hosting large scale events, including: installation of electricity plug-in points, upgrades to paths, Installation of new access gates (Recreation Park).	I Fairlamb	471	459	12	0	0	0	0
CP0274	Seafront Toilet Refurbishment	As part of the rolling programme of seafront toilet refurbishment, further works will be undertaken to refurbish the tram shelter toilets and Marine Walk north toilet block.	I Fairlamb	300	4	296	0	0	0	0
	Economic Development Grants									
CP0103	Provision for Economic Development	Provision for financial assistance for inward investment and job growth in order to lever in significant job creation and private sector investments. Growth areas including Vaux and IAMP may require assistance packages over coming years.	T Hurst	5,002	2,305	2,007	690	0	0	0
	Management of Council Land and Buildings									
CP0106	Property Planned Capital Maintenance	Repair, renewal and upgrade works across the council's property portfolio.	N Wood	3,549	2,157	1,192	200	0	0	0
CP0107	Low Water Corrosion / Riverside Repairs	Accelerated Low Water Corrosion is affecting riverside and coastal structures supporting footpaths and other infrastructure. The programme of assessment and repair has given a better understanding of their condition to allow measures to be planned and implemented to extend the life of the structures.	M Jackson	200	25	175	0	0	0	0
CP0272	Energy Efficiency - Northumbrian Water Smart Metering Programme	Development of a multi utility software package to analyse half hourly energy data, now being commercialised by Northumbrian Water. The second phase of the programme to develop a cost effective smart water metering system.	L Clark	130	0	130	0	0	0	0
CP0314	Solar PV Battery Storage	Upon securement of ERDF funding, there will be installation of solar PV and battery storage at Council buildings. This is expected to reduce electricity costs/carbon emissions and to access capacity auctions in conjunction with the National Grid. The buildings that would benefit by this investment are Jack Crawford, Evolve, Software centre, Washington Business Centre and the Port.	N Wood	2,963	0	26	2,937	0	0	0

CABINET SECRETARY
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0317	Civic Centre Options	Design and other preparatory works to inform of options for either a new or a significantly refurbished Civic Centre.	L Clark	250	0	250	0	0	0	0
	Regeneration Projects									
CP0273	City Centre Way Finding	New way finding infrastructure will be installed to improve pedestrian navigation around the city centre which will be adopted by the Council and its partners. This will improve the appearance and visitor experience.	I Fairlamb	200	5	15	130	50	0	0
CP0275	Investment Corridors - MAC Trust Contribution	Council contribution to works which commenced in 2016 on the development of the former Dun Cow fire station to create a performing arts centre. Grant funding is also being provided to the MAC Trust from the Heritage Lottery Fund, and further funds are being sought from the Arts Council.	I Fairlamb	690	320	0	370	0	0	0
CP0326	Chester Road - Highways	A Joint venture is being negotiated with Gentoo to deliver 500 new homes on the former Pennywell estate. The Council will fund initial infrastructure works necessary to create a new access to the site and receive a profit share plus the return of its investment from the first phase of the scheme.	L Clark	2,000	0	0	2,000	0	0	0
CP0332	Bishopwearmouth Townscape Heritage	Phase 1 funding to develop detail of Bishopwearmouth TH scheme for Phase 2 application to HLF. Subject to successful Phase 2 application, full TH scheme will commence late summer 2018 and run 5 years providing grants to owners / tenants to repair and restore historic properties, and funding an enhancement scheme for Town Park and activities and events.	I Fairlamb	77	0	77	0	0	0	0
TOTAL CONTINUING PROJECTS				**41,001**	**14,852**	**9,072**	**16,777**	**300**	**0**	**0**
	Projects Commencing 2018/19									
	Seafront									
CP0358	Sunderland Seafront Trust - CCF Round 5	A proposal to bring into use vacant assets as commercial premises as part of further development of assets in conjunction with the Seafront Trust. A bid for Coastal Communities R5 funding is to be made towards the total estimated cost.	I Fairlamb	1,100	0	0	0	100	1,000	0
CP0359	Seaburn Public Realm - Whitburn Road	Works to bridge the gap in previous public realm works and planned Siglion works at the Sea Front in front of Amusements at bottom of Dykelands road. The scheme will include new paving, seating, and steps.	I Fairlamb	325	0	0	25	300	0	0

CABINET SECRETARY
CAPITAL PROGRAMME

Appendix 4 continued

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Economic Development Grants									
CP0103	Provision for Economic Development	Provision for financial assistance for inward investment and job growth in order to lever in significant job creation and private sector investments. Growth areas including Vaux and IAMP may require assistance packages over coming years.	T Hurst	2,100	0	0	0	700	700	700
	Port									
CP0365	Port Mobile Crane	Purchase of an additional harbour mobile heavy lift crane to provide resilience to the Port's cargo handling operation with 2 of its 5 existing cranes nearing the end of their useful life. The Port's turnover is heavily dependent on its cargo handling business which has seen an 80% increase since 2010 in terms of total cargo throughput to just under 750k tonnes.	M Hunt	2,876	0	0	2,876	0	0	0
	Management of Council Land and Buildings									
CP0364	LED Lighting Energy Efficiency Works	Installation of energy efficient LED lighting at operational properties including Bunnyhill, Hetton Centre, the Crematorium and Derwent Hill. The project will be funded by 0% interest Salix loan which will be repaid using the first 5 years energy savings.	N Wood	500	0	0	500	0	0	0
CP0366	Former Usworth Comprehensive School Site Enabling Works	Site enabling works to facilitate the proposed residential development of land. The enabling works will consist of provision of a new separate access road to the Sunderland College site. Also required is the relocation of College sports facilities to their Sunderland campus.	N Wood	510	0	0	510	0	0	0
TOTAL PROJECTS COMMENCING 2018/19				**7,411**	**0**	**0**	**3,911**	**1,100**	**1,700**	**700**
TOTAL CABINET SECRETARY PORTFOLIO				**48,412**	**14,852**	**9,072**	**20,688**	**1,400**	**1,700**	**700**

CABINET SECRETARY
CAPITAL PROGRAMME

Appendix 4 continued

Source of Finance	Estimated Resources				
	2017/18	2018/19	2019/20	2020/21	2021/22
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	4,674	17,329	650	400	
Salix		500			
Government Grants					
BIG Coastal Communities Fund	12			600	
Government Grants General	430				
Grants from Other Public Bodies					
Lottery - Heritage Lottery Fund (HLF)	327				
European Regional Development Fund (ERDF)	13	1,469			
Other External Funding					
Other Capital Contributions	30				
Total External Sources	**5,486**	**19,298**	**650**	**1,000**	
FROM INTERNAL SOURCES					
Revenue Contributions					
Reserves					
Strategic Investment Reserve	748	130	50		
Capital Priorities Reserve	12			384	700
Strategic Investment Plan Reserve			87		
Port Reserve	400				
New Homes Bonus Reserve	33				
Unutilised RCCO Reserve	7		114		
Commercial & Development Reserve				316	
Capital Receipts	2,386	1,260	499		
Total Internal Sources	**3,586**	**1,390**	**750**	**700**	**700**
TOTAL FINANCING	**9,072**	**20,688**	**1,400**	**1,700**	**700**

CHILDRENS SERVICES
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	DFC									
CP0085	Schools Devolved Capital	Schools devolved formula capital allocations to address the priorities identified by schools in their own asset management plans.	S Mitchell	5,444	4,428	1,016	0	0	0	0
	Asset Management Projects									
	Major School's Asset Management									
CP0251	Columbia Grange School - New Extensions Plus External Works	New extension to the School to address shortage in pupil number places.	S Mitchell	555	548	7	0	0	0	0
CP0271	Rickleton Primary Redevelopment	Refurbishment and modernisation of existing teaching areas.	S Mitchell	333	31	302	0	0	0	0
CP0318	Southwick Primary Development	Refurbishment works to the reception and a small extension.	S Mitchell	230	0	230	0	0	0	0
CP0319	Barmston Primary Boiler Renewal	Renewal of heating system at the school.	S Mitchell	116	0	116	0	0	0	0
CP0320	Barnes Junior Heating Replacement	Renewal of heating system at the school.	S Mitchell	186	0	186	0	0	0	0
CP0321	Usworth Colliery Primary Heating	Renewal of heating system at the school.	S Mitchell	235	0	235	0	0	0	0
	Other Schools Asset Management Projects									
CP0204	Asbestos Removal	Asbestos management for schools.	S Mitchell	35	10	25	0	0	0	0
CP0205	Access Equipment	Purchase of equipment to assist children with disabilities to access school places.	S Mitchell	38	13	25	0	0	0	0
CP0211	School AMP - Nursery	Continuation of investment in local maintained and private day-care and nursery facilities in order to meet increased demand for nursery places from disadvantaged two year olds.	S Mitchell	39	18	21	0	0	0	0
CP0212	School AMP - Primary	Continue to provide window replacements, heating improvements, roofing works, electrical and technical and urgent health and safety works.	S Mitchell	2,493	939	1,554	0	0	0	0
CP0213	School AMP - Secondary	Continue to provide window replacements, heating improvements, roofing works, electrical and technical and urgent health and safety works.	S Mitchell	90	78	12	0	0	0	0
CP0217	Derwent Hill	Rolling programme of minor improvement works.	V French	46	21	25	0	0	0	0

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0260	School Asset Management Programmes - unallocated 2017/2018 Allocation	Continue to provide window replacements, heating improvements, roofing works, electrical and technical and urgent health and safety works.	S Mitchell	775	0	98	677	0	0	0
CP0369	Sunningdale Special School	Refurbishment of former office bases at Sunningdale Special School. The space is to be refurbished as classrooms.	S Mitchell	98	0	98	0	0	0	0
CP0297	School's Condition Works	Continue to provide window replacements, heating improvements, roofing works, electrical and technical and urgent health and safety works.	S Mitchell	598	0	598	0	0	0	0
CP0327	New Condition Works/EAW	Delivery of electricity at work and schools condition surveys.	S Mitchell	60	0	60	0	0	0	0
	Other Children Services Projects									
CP0089	Capita One V4 Upgrade	Upgrade of Capita One Upgade system.	S Mitchell	185	179	6	0	0	0	0
CP0298	Children's and Adults Social Care Case Management System	Investment of a new case management system for Children's/Early help and Adult's that will support front line practitioners in discharging their professional duties to vulnerable children and adults in a more efficient and effective manner. The new Liquid Logic system offers a range of software solutions for Children and Adult's services which can be used individually, or as an integrated whole.	B Scarr	2,524	681	1,843	0	0	0	0
CP0217	Friends of Derwent Hill	Purchase & Installation of two new camping pods, removal of existing shower block & purchase and installation of amenity building.	V French	80	0	34	46	0	0	0
	30 Hour Free Child Care									
CP0322	East Herrington Academy Nursery	Extension of existing nursery to meet the 30 hour free childcare offer.	S Mitchell	238	6	232	0	0	0	0
CP0323	Farringdon Primary Academy Nursery	New Kitchen to provide meals for nursery to meet the 30 hour free childcare offer.	S Mitchell	385	0	385	0	0	0	0
CP0324	Seaburn Dene Primary Nursery	Refurbishment of community area to meet the 30 hour free childcare offer.	S Mitchell	93	0	93	0	0	0	0
CP0325	Barnes Infant Academy Nursery	Provision of new demountable nursery class to meet the 30 hour free childcare offer.	S Mitchell	250	0	250	0	0	0	0
	Social Care									
CP0292	Children Social Care Homes	Purchase of two social care homes being Monument View and Grasswell House.	D Patterson	600	0	600	0	0	0	0
TOTAL CONTINUING PROJECTS				**15,726**	**6,952**	**8,051**	**723**	**0**	**0**	**0**

CHILDRENS SERVICES
CAPITAL PROGRAMME

Appendix 4 continued

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Projects Commencing 2018/19									
	Major School's Asset Management									
CP0350	SSGA - School extensions to St Pauls & Benedict Biscop	Sunderland South Growth Area plans will generate demand for school places growth with 2 school extensions (105 places each) required to meet demand in advance of a new school requirement in the longer term. The upfront investment will be recouped through S106 over the longer term. Extensions are planned to St Pauls CE VC Primary and Benedict Biscop Primary Academy.	S Mitchell	2,000	0	0	0	2,000	0	0
	Other Children Services Projects									
CP0348	Derwent Hill Bunkhouse, Campsite and Educational Centre	Development of a bunkhouse, additional campsite accommodation, and improved wheelchair access at Derwent Hill Education Centre. The investment will support the sustainability of Derwent Hill Education Centre through new and increased income streams, and meet client demands, including from schools, businesses and tourists.	V French	305	0	0	305	0	0	0
	Special Educational Needs - School Placements									
CP0370	Increasing SEND capacity	Refurbishments to create new Special Educational Needs & Disability (SEND) schools places.	S Mitchell	166	0	0	166	0	0	0
TOTAL PROJECTS COMMENCING 2018/19				**2,471**	**0**	**0**	**471**	**2,000**	**0**	**0**
TOTAL CHILDREN'S PORTFOLIO				**18,197**	**6,952**	**8,051**	**1,194**	**2,000**	**0**	**0**

CHILDRENS SERVICES
CAPITAL PROGRAMME

Appendix 4 continued

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	600	305	2,000		
Salix	34				
Government Grants					
DfE - School's Condition Grant	2,968	588			
DFE - Early Years 30 Hour Free Child Care	580				
DfE Basic Need Grant	589	39			
DfE - SF Schools DFC Grant	1,016				
Government Grants General		166			
Other External Funding					
School Governors Contribution	178				
Other Capital Contributions	34	46			
Total External Sources	**5,999**	**1,144**	**2,000**		
FROM INTERNAL SOURCES					
Revenue Contributions					
Directorate	327				
Reserves					
Strategic Investment Reserve	791				
S106 Reserve	178	50			
Unutilised RCCO Reserve	6				
Capital Receipts	750				
Total Internal Sources	**2,052**	**50**			
TOTAL FINANCING	**8,051**	**1,194**	**2,000**		

HEALTH HOUSING & ADULT SERVICES
CAPITAL PROGRAMME

Appendix 4 continued

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Adult Services									
CP0241	Autism Innovation Grant	Funding provided by the Department of Health to enable public buildings used by people with Autism more autism friendly.	J Usher	18	14	4	0	0	0	0
CP0080	Disabled Facilities Grants	Provision of grants to support much needed adaptations to be carried out to properties allowing people to remain in their homes.	G King	3,448	0	3,448	0	0	0	0
CP0296	Bishopwearmouth Horticultural Nursery	Planned infrastructure upgrades that will support the sustainability of this service going forward.	G King	123	102	21	0	0	0	0
CP0316	Introduction of Electronic Homecare Monitoring System (EHM)	The introduction of an EHM system will provide real time data, with carers using EHM logging in and out via mobiles at the time of the care call which will enable more accurate billing.	G King	121	0	0	121	0	0	0
	Housing Services									
CP0065	Private Sector Renewal Grants	Grants to the private sector for housing renewals.	I Fairlamb	300	299	1	0	0	0	0
CP0072	Hetton Downs Regeneration	Acquisition and demolition of properties for housing renewal in the Hetton Downs area.	I Fairlamb	9,111	8,549	262	300	0	0	0
CP0083	Cluster of Empty Homes	Financial assistance for the refurbishment of empty homes in targeted areas of the City, including Hendon, Millfield and the North.	I Fairlamb	401	393	8	0	0	0	0
CP0302	Hetton Downs Development Phase 2	To provide affordable housing units in the Hetton Downs Renewal area.	I Fairlamb	289	4	0	285	0	0	0
CP0343	Empty Properties Hetton Downs - Loan Funding	Loan funding to Sunderland Housing Limited to acquire or lease empty homes in the Hetton Downs regeneration area with a focus on Fairy, Edward and Caroline Streets.	I Fairlamb	300	0	300	0	0	0	0
CP0344	Bringing Empty Properties Back Into Use - Loan Funding	Loan to Back on the Map to acquire and refurbish empty homes.	I Fairlamb	390	0	390	0	0	0	0
CP0345	Empty Properties - Bring Back Into Use	Financial assistance in the form of loans and/or grants to refurbish empty homes.	I Fairlamb	228	0	228	0	0	0	0
CP0335	Pilot Housing Delivery Plan	A pilot scheme in order to demonstrate the Council's ability to address some of the gaps in its housing provision by directly procuring residential developments of new homes as recommended by the Housing Delivery Plan.	I Fairlamb	3,000	0	400	2,600	0	0	0
TOTAL CONTINUING PROJECTS				**17,729**	**9,361**	**5,062**	**3,306**	**0**	**0**	**0**

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Projects Commencing 2018/19									
	Adult Services									
CP0351	Assistive Technology in Adult Social Care	To delay vulnerable people requiring support and enabling them to remain in their own homes for longer. Research has shown use of AT can delay residential care by an average 8 months. Investment includes: • Provision of demonstration showrooms and training facilities at the Independent Living Centre • Increased use of technology to transform service delivery and increase staff productivity • Provision of show rooms to promote technological solutions to improve resident's independence.	S Mitchell	1,050	0	0	300	250	250	250
TOTAL PROJECTS COMMENCING 2018/19				**1,050**	**0**	**0**	**300**	**250**	**250**	**250**
TOTAL HEALTH, HOUSING & ADULT SERVICES PORTFOLIO				**18,779**	**9,361**	**5,062**	**3,606**	**250**	**250**	**250**

HEALTH HOUSING & ADULT SERVICES
CAPITAL PROGRAMME

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	675	2,600			
Government Grants					
DoH - Grants General	68				
English Partnership /SHIP	1	195			
Government Grants General	4				
Better Care Fund Grant	3,343				
Grants from Other Public Bodies					
Homes and Communities Association (HCA)	262	105			
Other External Funding					
Gentoo	100				
Total External Sources	**4,453**	**2,900**			
FROM INTERNAL SOURCES					
Revenue Contributions					
Directorate	5				
Reserves					
Strategic Investment Reserve	21	121			170
Capital Priorities Reserve					80
Strategic Investment Plan Reserve		300			
S106 Reserve	300	68			
New Homes Bonus Reserve	283	217			
Commercial & Development Reserve			250	250	
Total Internal Sources	**609**	**706**	**250**	**250**	**250**
TOTAL FINANCING	**5,062**	**3,606**	**250**	**250**	**250**

PUBLIC HEALTH, WELLNESS & CULTURE
CAPITAL PROGRAMME

Appendix 4 continued

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Culture and Tourism									
CP0329	Riverside Investigation Works	Large scale engineering investigation works are to be carried out along the riverside to inform maintenance requirements.	M Jackson	495	31	464	0	0	0	0
CP0176	Hylton Castle Phase 2	Providing three new floors and a roof so that the castle can be repurposed as a community - led heritage centre. Centre expected to be open in Spring 2019.	V French	2,934	175	424	2,335	0	0	0
CP0219	Canny Space Project	Council contribution to the Churches Conservation Trust for improvement/alterations at Holy Trinity Church which will transform into a new community/commercial venue and heritage attraction.	V French	300	0	0	300	0	0	0
CP0290	Keel Square and Seafront Lighting	A series of new colour schemes to develop feature lights at the Seafront and in Keel Square with remote access infrastructure installed to allow the colour scheme to be changed remotely.	I Fairlamb	30	19	11	0	0	0	0
CP0306	Fulwell Mill Restoration	Restoration works to bring back into use as a visitor attraction. Works include: newly designed and fitted cap, wind shaft, sails, brake wheel and mechanism, external repairs, replacement windows, and decoration of the tower, internal mechanical and electrical works. Project estimated to be completed by early spring 2018.	I Fairlamb	379	16	363	0	0	0	0
CP0312	Tall Ships Race 2018 - Dredging	Improvement to dredging of quays to ensure a safe and successful delivery of the Event.	F Brown	1,900	95	1,805	0	0	0	0
CP0367	Tall Ships Race 2018 - Infrastructure	Improvement to infrastructure to ensure a safe and successful delivery of the Event.	F Brown	1,000	5	95	900	0	0	0
CP0315	Northern Gallery for Contemporary Art	Contribution towards the Improvements to the Gallery following its move from Fawcett Street into the National Glass Centre. Anticipated completion Spring 2018.	V French	100	0	100	0	0	0	0
	Sports Facilities									
CP0178	Leisure Facility	Remedial works to the Sunderland Aquatic Centre roof.	N Wood	4,323	328	191	3,804	0	0	0
CP0304	Sunderland Aquatic Centre Diving Board	Modification work to the diving board at the Sunderland Aquatic Centre.	N Wood	77	66	11	0	0	0	0
TOTAL CONTINUING PROJECTS				**11,538**	**735**	**3,464**	**7,339**	**0**	**0**	**0**
	Projects Commencing 2018/19									
	Events & Culture									
CP0346	Sunderland Museum and Winter Garden Improvements	Update of the museum offer both from a visitor and service perspective, as well as a need to ensure best use of available resources. Works include maintenance and condition works, energy efficiency works and minor internal changes to maximise retail income generating opportunities.	S Mitchell	335	0	0	335	0	0	0

PUBLIC HEALTH, WELLNESS & CULTURE
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0347	Increasing Access to Heritage	Investment to provide technological and other solutions to improve ready access to the heritage offer. Includes a Local Studies and Heritage Centre within Sunderland Museum and Winter Gardens with digital facilities including archive storage, shelving, touchdown spaces and exhibition displays. Project dependent upon securement of external funding.	S Mitchell	3,500	0	0	0	2,500	1,000	0
CP0349	Sunderland Illuminations 18-19	Purchase of lighting features for the 2019 event, to support the Illuminations offer, attracting over 200,000 visitors annually.	V French	150	0	0	0	150	0	0
TOTAL PROJECTS COMMENCING 2018/19				**3,985**	**0**	**0**	**335**	**2,650**	**1,000**	**0**
TOTAL PUBLIC HEALTH, WELLNESS & CULTURE				**15,523**	**735**	**3,464**	**7,674**	**2,650**	**1,000**	**0**

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	2,109	4,795			
Grants from Other Public Bodies					
Lottery - Heritage Lottery Fund (HLF)	424	1,811	2,000	1,000	
Historic England	99				
Total External Sources	**2,632**	**6,606**	**2,000**	**1,000**	**0**
FROM INTERNAL SOURCES					
Revenue Contributions					
Strategic Initiative Budget	60				
Reserves					
Strategic Investment Reserve	82	733			
Capital Priorities Reserve	11				
Modernisation Reserve			4		
HCA Riverside Reserve	464				
Unutilised RCCO Reserve			10		
Commercial & Development Reserve			636		
Other Capital Reserves	11				
Capital Receipts	204	335			
Total Internal Sources	**832**	**1,068**	**650**		
TOTAL FINANCING	**3,464**	**7,674**	**2,650**	**1,000**	**0**

CITY SERVICES
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Major Highway Schemes									
CP0003	Northern Spire (SSTC Ph2 - New Wear Crossing)	Construction of the New Wear Crossing, now known as 'Northern Spire', which is planned to be completed in Spring 2018.	L Clark	117,600	78,210	39,390	0	0	0	0
CP0194	SSTC Ph3	Construction of a new road linking the Northern Spire new wear crossing and the city centre. The road is planned to be open to traffic in 2021.	L Clark	59,000	3,570	5,356	11,111	19,945	17,517	1,501
CP0281	Port Enterprise Zone and SSTC5 Design	Design and bidding proposal costs for Port Enterprise Zone and SSTC Phase 5.	M Jackson	250	109	141	0	0	0	0
	Local Transport Plan									
CP0024	Highway Maintenance	Implement the Highway Maintenance Programme of road resurfacing and footway reconstruction schemes.	M Jackson	13,113	8,323	3,590	600	600	0	0
CP0025	Bridge Maintenance	Annual programme of Structural Bridge maintenance.	M Jackson	2,166	1,079	518	569	0	0	0
CP0026	Integrated Transport	Annual programme for the implementation of Road Safety and Traffic Congestion improvement schemes.	M Jackson	8,826	6,312	2,112	402	0	0	0
CP0163	Houghton Cut Safety Works	Preparation of rockfall protection netting.	M Jackson	30	0	30	0	0	0	0
CP0216	Sunderland Riverside, Stadium Park	Works to provide improved pedestrian and cyclist routes in the vicinity of the Stadium / Beacon of Light and to improve maintenance access to the riverside.	L Clark	1,158	299	859	0	0	0	0
CP0226	Northern Gateway	Improving access to the Wearmouth Bridge and the City Centre via a two way traffic system.	M Jackson	6,000	563	1,151	4,286	0	0	0
CP0228	Footbridge Removal, Glebe Estate	Footbridge Removal, Glebe Estate and associated pedestrian improvements.	M Jackson	250	0	250	0	0	0	0
CP0232	Parking Meters	The replacement and provision of parking meters for new locations in the City and an on-going programme of reviewing provision and introducing new locations for pay and display.	M Jackson	125	64	61	0	0	0	0
CP0237	Safety Fencing Replacement	Replacement of safety fences at priority locations identified, to ensure that public safety is protected.	M Jackson	485	265	120	100	0	0	0
CP0248	City Centre Cycle Permeability Scheme	Deliver better cycling provision into Sunderland City Centre.	M Jackson	946	941	5	0	0	0	0
CP0249	Southern Growth Area - Highways Design	Detailed design of highway infrastructure necessary to complete the Ryhope Doxford Link Road and to open up development land in South Sunderland (Southern Growth Area).	M Jackson	50	17	33	0	0	0	0
CP0279	Highways Maintenance Asset Management	Improvement of the council's major highway assets including roads, bridges, footways and traffic signal equipment.	M Jackson	5,250	1,026	1,126	1,598	1,500	0	0
CP0280	Car Parks	The refurbishment of St Marys lifts and maintenance works including relining and resurfacing in the car parks.	M Jackson	95	37	58	0	0	0	0

CITY SERVICES
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0330	Structural Maintenance of A195 Bridges	Structural maintenance to A195 Lambton Interchange Bridges and Harraton Hall Footbridge.	M Jackson	584	30	554	0	0	0	0
CP0342	A1231 Bridge Maintenance	A programme of Structural maintenance to bridges on the Nissan Interchange and Low Barmston Access Bridge.	M Jackson	750	0	653	97	0	0	0
	Flood & Coast Risk Management									
CP0160	Flood and Extreme Weather Mitigation	Rolling programme of flood defence and flood alleviation schemes in accordance with the flood priority list and extreme weather repairs, as well as match funding flood studies jointly carried out by Sunderland City Council, Northumbrian Water and the Environment Agency.	M Jackson	3,066	1,359	637	816	254	0	0
	Parks									
CP0164	Roker Parks Improvement	Subject to securing Heritage Lottery funding the project will see Roker Park restored including, the restoration of the old Park Lodge, new catering facilities and infrastructure and landscape improvements.	I Fairlamb	3,000	80	0	52	2,868	0	0
	Infrastructure and Transportation									
CP0009	Private Streetworks	Council contribution to the upgrade of private streets.	M Jackson	50	0	50	0	0	0	0
CP0239	Street Lighting - Energy Saving Project	The Phase 1 LED replacement programme will be completed in February 2018 at which time over 23,000 units will have been converted.	M Jackson	6,200	1,879	4,321	0	0	0	0
CP0310	LED Street Lighting Phase 2	Following on from the progress of phase 1 installation of LED lights, it is planned that a further 24,513 lamps of varying energy consumption be converted to LED lamps. The majority, over 20,000, is units currently burning between 100W and 250W of energy and the proposed replacements would burn at between 50W and 100W without detriment to required lighting levels.	M Jackson	7,900	0	1,700	3,300	2,700	200	0
	Environmental Services (Street Scene)									
CP0161	Improvements to the Crematorium	Physical and structural improvements to the Crematorium.	M Speed	140	60	0	80	0	0	0
CP0185	Fleet Replacement	Plant lifecycle replacement of fleet within Place Directorate.	M Speed	1,308	1,148	160	0	0	0	0
CP0186	Replacement of Cremators	Replacement of the crematorium equipment, comprising three cremators and associated emissions control system to ensure the reliable and compliant operation of the council's bereavement service.	M Speed	900	16	500	384	0	0	0
CP0229	Recycling and Garden Waste Collection Fleet Replacement	Replacement of split body recycling and garden waste collection vehicles to continue the Council's existing service provision.	M Speed	2,930	203	2,727	0	0	0	0
CP0231	Replacement Horticultural Equipment	Replacement of equipment required to continue service delivery.	M Speed	478	154	324	0	0	0	0
CP0233	In Cab GIS Information System	Introduction of In Cab GIS System for the refuse and recycling fleet to enable real time links with the CSN to improve service performance and efficiency.	M Speed	134	120	14	0	0	0	0

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0282	Trade Waste Bins	Additional trade bins required to meet service delivery.	M Speed	20	5	15	0	0	0	0
CP0283	Mobile Catering Facility	Provision of equipment for mobile catering facilities.	M Speed	40	38	2	0	0	0	0
CP0284	Specialist Vehicle Replacement – transit vehicles	Purchase of cash in transit vehicles which have reached the end of their operational life.	M Speed	96	0	96	0	0	0	0
CP0285	Parks & Cemetery Infrastructure - Paths	A four year repair inspection and maintenance programme from 2016/2017 in cemeteries and parks.	M Speed	300	71	79	75	75	0	0
CP0278	Specialist Vehicle Replacement – collection vehicles	Replacement of bulky item collection vehicles which have reached the end of their operational life.	M Speed	153	0	153	0	0	0	0
	Coast Protection									
CP0039	SF3 - Initial Development Works	Initial development works for Strategic Frontage 3.	M Jackson	199	29	170	0	0	0	0
	Play Provision **Play and Urban Games Strategy :**									
CP0189	Play Provision Schemes	Improvement works to play areas across the city.	M Speed	453	381	72	0	0	0	0
CP0300	Play Provision - Ryhope	Play provision in Ryhope.	M Speed	284	135	149	0	0	0	0
	Events, Culture & Sport									
CP0309	Park Life - FA Football Hubs Development Costs	Stage 1 development costs for the Park Life project.	V French	250	0	250	0	0	0	0
CP0309	Park Life - FA Football Hubs	The planned provision of 3 football Hub sites strategically located in areas of demand, geographically positioned and with good transport links. Project to be 60% externally funded with a council match funding of 40%.	V French	12,000	0	0	10,000	2,000	0	0
TOTAL CONTINUING PROJECTS				**256,579**	**106,523**	**67,426**	**33,470**	**29,942**	**17,717**	**1,501**
	Projects Commencing 2018/19									
	Local Transport Plan									
CP0024	Highways Maintenance	Implement the Highway Maintenance Programme of road resurfacing and footway reconstruction schemes.	M Jackson	2,733	0	0	2,733	0	0	0
CP0026	Integrated Transport	Annual programme for the implementation of Road Safety and Traffic Congestion improvement schemes.	M Jackson	1,008	0	0	1,008	0	0	0
	Flood and Coast Management									
CP0357	Coastal Defence - Strategic Frontage 3	Coastal defence scheme situated around east of the port which will protect the Ports infrastructure. The project is reliant upon successful external funding bids.	M Jackson	10,500	0	0	1,575	5,250	3,150	525
	Infrastructure and Transportation									

CITY SERVICES
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
CP0356	Software Centre Car Park	Car parking provision has been a barrier to securing further occupants at the Software Centre. Provision of a 59 space car park will aid the centre offer, assist in increasing centre occupancy and generate additional income.	M Jackson	356	0	0	356	0	0	0
CP0360	Roker Car Park Extension	Extension to the existing Roker car park will create an additional 25 spaces and disabled coach parking, generating additional income of circa £0.025m pa. Planned works will include improved signage, new bins and cycle parking.	M Jackson	150	0	0	50	100	0	0
CP0361	SSGA - Ryhope Doxford Link Road	New road infrastructure which will support new homes in SSGA in advance of S106 funding. SSGA is to provide; 4,000 family and executive homes and will result in council tax growth, New Homes Bonus, 300 affordable homes and significant construction job creation/safeguards.	M Jackson	5,000	0	0	0	1,000	3,000	1,000
CP0362	A19/A690 Doxford Park Junction Improvement Scheme	Capacity improvement measures at the A19/A690 Doxford Park junction including upgrade of the A19 southbound off-slip road. The proposals will support delivery of approaching 1,000 dwellings prior to 2021 and a further 4,000 dwellings subsequently, facilitating SSGA. Includes expected match funding from Highways England.	M Jackson	1,919	0	0	1,919	0	0	0
	Environmental Services (Street Scene)									
CP0352	Replacement Household Waste and Recycling Centre	Provision of new household waste facility. Planned relocation of the main facility with a further micro-site at Coalfields.	M Speed	5,000	0	0	1,500	3,500	0	0
CP0353	Refuse Collection Vehicle Replacement Programme	Planned replacement of the fleet of 20 refuse collection vehicles at the forecast end of life. Consideration will be given at time of purchase to electric / hybrid options.	M Speed	3,780	0	0	0	0	3,780	0
CP0354	Specialist (Large) Vehicle Replacement Programme	Planned replacement of large specialist vehicle and plant fleet purchases in order to ensure most efficient use of resources. Consideration will be given at time of purchase to electric / hybrid options.	M Speed	1,920	0	0	873	138	489	420
CP0355	Redevelopment of Parsons Depot	Provision of one operational depot at Parsons, Washington to replace South Hylton House and Houghton (Jack Crawford House would be retained). The project would include provision for the alternative location for the salt barn currently on located on the SSTC3 route.	M Speed	6,854	0	0	4,000	2,854	0	0
TOTAL PROJECTS COMMENCING 2018/19				**39,220**	**0**	**0**	**14,014**	**12,842**	**10,419**	**1,945**
TOTAL CITY SERVICES PORTFOLIO				**295,799**	**106,523**	**67,426**	**47,484**	**42,784**	**28,136**	**3,446**

CITY SERVICES
CAPITAL PROGRAMME

Source of Finance	Estimated Resources 2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM EXTERNAL SOURCES					
Loans					
Prudential Borrowing	47,022	24,393	13,674	5,593	1,788
Salix	6,021	3,300	2,700	200	
Government Grants					
DfT - Local Transport Plan (LTP)	4,695	5,482			
DfT - National Productivity Investment Fund	932	3,360			
Local Pinch Point (LPP)	30				
DfT - Pothole Grant	260	479			
Environment Agency Coast Protection	499	216	2,427	557	
Government Grants General	10				
Local Growth Fund (LGF)		1,800	19,945	17,517	1,238
Highways England		1,439			
Grants from Other Public Bodies					
Lottery - Heritage Lottery Fund (HLF)			2,700		
Nexus LTP	41	42			
Sport England	150				
Football Association		6,000	1,200		
Total External Sources	**59,660**	**46,511**	**42,646**	**23,867**	**3,026**
FROM INTERNAL SOURCES					
Revenue Contributions					
Directorate	74				
Reserves					
Strategic Investment Reserve	383				
Capital Priorities Reserve	3,765	100		3,780	
Strategic Investment Plan Reserve	1,909				
Stadium Park Transfer Reserve	859				
S106 Reserve	254				
Port Reserve	151				
Unutilised RCCO Reserve	271				
Other Capital Reserves	100				
Capital Receipts		873	138	489	420
Total Internal Sources	**7,766**	**973**	**138**	**4,269**	**420**
TOTAL FINANCING	**67,426**	**47,484**	**42,784**	**28,136**	**3,446**

RESPONSIVE SERVICES AND CUSTOMER CARE
CAPITAL PROGRAMME

Project Ref.No.	Project	Project Description	Project Sponsor	Gross Cost £'000	Expend to 31.3.17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
	Continuing Projects									
	Customer Care									
CP0057	Customer Service Network Platform	To improve the quality and accessibility of customer services.	L St Louis	949	892	57	0	0	0	0
TOTAL CONTINUING PROJECTS				**949**	**892**	**57**	**0**	**0**	**0**	**0**
TOTAL RESPONSIVE SERVICES & CUSTOMER CARE				**949**	**892**	**57**	**0**	**0**	**0**	**0**

Source of Finance	Estimated Resources				
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
FROM INTERNAL SOURCES					
Revenue Contributions					
Reserves					
Unutilised RCCO Reserve	57				
Capital Receipts					
Government Grants	**57**	**0**	**0**	**0**	**0**
TOTAL FINANCING	**57**	**0**	**0**	**0**	**0**

Appendix 5

Prudential and Treasury Indicators 2018/2019 to 2020/2021

All of the prudential indicators fully reflect regulatory requirements. Should any of the Council's prudential indicators be exceeded during the year then they will be reported to Cabinet and where appropriate full Council at the next appropriate meeting following the change.

In addition, the Government has introduced flexibility around the use of capital receipts to support transformation costs arising from implementing the Councils savings programme for 2016/2017 to 2021/2022. The transformation schemes where it is proposed to use finance from capital receipts and to treat costs as capital spend under sections 16(2)b and 20 of the Local Government Act 2003 are detailed in the Revenue Budget and Proposed Council Tax report elsewhere on the agenda and where they impact on the Council’s Prudential and Treasury Indicators this is detailed against the specific Prudential indicators.

The indicators that must be taken into account are set out below:

P1 Actual capital expenditure incurred in 2016/2017 was £77.886 million and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Estimated Capital Expenditure	141,657	147,528	75,469	54,517
Efficiency Transformation Projects	4,000	3,480	0	0
Total Capital Expenditure	**145,657**	**151,008**	**75,469**	**54,517**

The capital expenditure plans set out in Appendix 3 provide details of the service activity of the Council. The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. The estimated spend is based on grant awards received and the profile of expenditure will be updated in the quarterly capital reviews to Cabinet as further grants awards are announced and projects are approved.

P2 The fundamental objective in the consideration of the affordability of the Council’s capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the Council remains within sustainable limits. In considering the affordability of its capital plans The Council considers all of the resources currently available to it and estimated to be received in the future, together with the totality of its capital plans, income and expenditure forecasts.

The Council ensures that the revenue implications of capital finance, including financing costs, are properly taken into account within option appraisal processes, the capital programme and the medium term financial strategy. In assessing affordability the Council considers the council tax implications of its capital programme, borrowing decisions and investment decisions. The Council sets and monitors prudential indicators as key indicators of affordability.

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2016/2017 are:

Ratio of financing costs to net revenue stream

2016/2017 Actual	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
7.19%	8.51%	9.87%	11.95%	12.75%

The estimates of financing costs include current commitments and the proposals in the revenue budget and capital programme reports. The forecasts provide an indication of the impact of the capital investment plans on the Council's overall finances. They show increases to the ratio as a result of forecast reductions in future years Government Funding allocations and additional planned prudential borrowing for strategic priorities approved in the capital programme.

The level of financing costs is considered to be affordable and has been taken into account when assessing the Medium Term Financial Strategy.

P3 Estimates of the end of year Capital Financing Requirement for the Council for the current and future years and the actual Capital Financing Requirement at 31st March 2017 are:

Capital Financing Requirement

31/03/2017 £'000 Actual	31/03/2018 £'000 Estimate	31/03/2019 £'000 Estimate	31/03/2020 £'000 Estimate	31/03/2021 £'000 Estimate
354,080	420,917	510,894	527,585	535,525

The Capital Financing Requirement is the historic outstanding capital expenditure which has not yet been paid for from revenue or capital resources. It measures the authority's underlying need to borrow for a capital purpose. It does not increase indefinitely as it is decreased by the Minimum Revenue Provision which broadly reduces the borrowing need in line with assets lives. The increase in the Capital Financing Requirement reflects the underlying borrowing need in respect of funding proposals in the capital programme reports.

The Capital Financing Requirement includes other long term liabilities (e.g. PFI schemes and finance leases). Whilst this increases the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £84.274 million of such schemes included in its Capital Financing Requirement at 31st March 2017.

P4 CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following comparator between gross debt and the capital financing requirement as a key indicator of prudence:

> "In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The Council had no difficulty meeting this requirement in 2016/2017, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report and the report elsewhere on today's agenda on the Revenue Budget and Proposed Council Tax 2018/2019.

P5 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt (gross of investments) for the next three financial years. These limits must separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Services, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to Cabinet and the Council at the next available meeting.

Authorised Limit for External Debt

	2017/2018 £'000	**2018/2019 £'000**	**2019/2020 £'000**	**2020/2021 £'000**
Borrowing	493,192	505,092	521,381	538,024
Other long term liabilities	84,361	79,031	73,641	67,895
Total	**577,553**	**584,123**	**595,022**	**605,919**

The Executive Director of Corporate Services confirms that the above authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Executive Director of Corporate Services also confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements and refinancing of all internal borrowing. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

The Council also undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in the Council's borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing for the Council. A specific element of risk has also been taken into account for these bodies. The capital expenditure and borrowing of companies where the Council has an interest such as Siglion, Sunderland Care and Support Ltd, Sunderland Lifestyle Partnership Ltd and Together for Children Sunderland Ltd is not included within the Council's prudential indicators, however regard to the financial commitments and obligations to those bodies is taken into account when deciding whether borrowing is affordable.

In taking its decisions on the Revenue Budget and Capital Programme for 2018/2019, the Council is asked to note that the authorised limit determined for 2018/2019 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst case scenario level, without the additional headroom included within the authorised limit to allow for example for unusual cash flow movements. It equates to the projected maximum external debt and represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also requested to delegate authority to the Executive Director of Corporate Services, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, similar to the authorised limit set out in P5.

The operational boundary limit will be closely monitored and a report will be made to Cabinet if it is exceeded at any point in the financial year ahead. It is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be exceeded temporarily as a result of the timing of debt rescheduling.

Operational Boundary for External Debt

	2017/2018 **£'000**	**2018/2019** **£'000**	**2019/2020** **£'000**	**2020/2021** **£'000**
Borrowing	414,599	480,092	496,381	513,024
Other long term liabilities	84,361	79,031	73,641	67,895
Total	**498,960**	**559,123**	**570,022**	**580,919**

P7 The Council's actual external debt at 31st March 2017 was £353.982 million and was made up of actual borrowing of £269.708 million and actual other long term liabilities of £84.274 million

The Council includes an element for long-term liabilities relating to PFI schemes and finance leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for internal borrowing and cash flow variations.

P8 The Council is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However the revised Code was adopted on 3rd March 2010 by full Council and is re-affirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are affordable;
(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
(c) treasury management and investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved;
and that in taking decisions in relation to (a) to (c) above the local authority is:
(d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:
(e) local strategic planning;

(f) local asset management planning;

(g) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2018/2019 to 2020/2021

P9 It is recommended that the Council sets an upper limit on its fixed interest rate exposures of £350 million in 2018/2019, £365 million in 2019/2020 and £350 million in 2020/2021.

P10 It is further recommended that the Council sets an upper limit on its variable interest rate exposures of £58 million in 2018/2019, £46 million in 2019/2020 and £53 million in 2020/2021.

P11 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
over 50 years	100%	0%

P12 A maximum maturity limit of £75 million is set for each financial year (2018/2019, 2019/2020 and 2020/2021) for long-term investments (those over 365 days), made by the Council. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The types of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 8).

At present the Council has £21.914m of long-term investments. This is £16.400m for the value of share capital held in NIAL Holdings PLC (a 9.62% share), a £5.000m equity investment in Siglion (a 50% share), a £0.500m equity share in Sunderland Lifestyle Partnership Ltd (a 50% share) and the Council also holds £0.014m in shares and unit trusts.

Appendix 6

Minimum Revenue Provision Policy Statement 2018/2019

1.1 The Council is required to repay an element of its capital financing requirement each year through a revenue charge known as the Minimum Revenue Provision (MRP). Until 2007/2008 the basis of calculation for the MRP was specified in legislation. However, from 31st March 2008 onwards the statutory requirement is simply for local authorities to make a prudent level of provision and the Department for Communities and Local Government (DCLG) has instead provided statutory guidance on the methodology to use, which local authorities are required to 'have regard to' when assessing an appropriate MRP. The guidance recommends that authorities must submit to full Council an annual statement of its policy on making a MRP in respect of the following financial year. Any subsequent revisions to that policy should also be approved by full Council. DCLG have consulted on revised MRP guidance for accounting periods starting on or after 1st April 2018 and this revised guidance has been considered when setting the MRP for 2018/2019.

Local authorities have significant discretion in determining the level of MRP which they consider to be prudent. A review of the Council's MRP policy in 2015/2016 identified changes to the way in which MRP was calculated that reduces the pressure on its revenue budget but still ensure that a prudent level of provision is set aside. A further review was undertaken in 2016/2017 to determine how much additional MRP has been charged to the revenue account had the annuity basis used to calculate MRP, that was introduced from 2015/2016, been adopted from 1st April 2008.

It was established that around £43.512m less MRP would have been charged between 1st April 2008 and 31st March 2016 had the annuity basis been adopted during this period. Council approved that the overprovision of MRP in previous years be used to reduce MRP for 20 years from 2016/2017 by a fixed amount of £2.176m each year until 2036/2037. Phasing over 20 years is the time period that the Government specify for expenditure to be treated as capital expenditure by virtue of direction under section 16(2)(b) of the 2003 Act and is considered to be prudent as taking previous overpayments over this longer period slows the increase to the Council's capital financing requirement, and therefore interest charges, whilst still giving additional certainty to the Council's debt charges budget. The proposal assists the Council in addressing the impact of funding reductions as described in the Council's MTFS.

This document sets out the MRP policy for 2018/2019.

1.2 The statutory guidance issued by the DCLG considers the broad aim of a prudent MRP policy as being "to ensure that the debt is repaid over a period of time that is either reasonably commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by Government Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant." The revised DCLG guidance, currently being consulted upon, considers that the maximum asset life over which debt should be repaid should be 50 years for freehold land and 40 years for any other asset class.

1.3 The four options for calculating MRP which are set out in the guidance can be summarised as follows:

- Option 1 – Regulatory Method: applying the statutory formula set out in the 2003 Regulations before it was revoked in 2008.

- Option 2 – Capital Financing Requirement (CFR) Method: multiplying the CFR at the end of the preceding financial year by 4%. This method calculates a similar amount of MRP to Option 1.

- Option 3 – Asset Life Method: amortising expenditure over an estimated useful life for the relevant assets created. An assessment must be made of the asset life at the outset of the capital scheme and MRP is charged to revenue in either equal annual instalments or by an annuity method over the estimated life of the asset. The MRP charge will commence in the financial year following the one in which the asset comes into service.

- Option 4 – Depreciation Method: making charges to revenue in accordance with the standard rules for depreciation accounting for the particular asset being created or enhanced.

Although four options are included in the guidance produced by DCLG other approaches are not meant to be ruled out, provided that they are fully consistent with the statutory duty to make prudent revenue provision. It is the responsibility of each authority to decide on the most appropriate method of making a prudent provision, after having regard to the guidance.

1.4 The Council used Option 1 (the Regulatory Method) for government supported borrowing until 2015/2016 where MRP was calculated on all loan advances and repayments through the Council's consolidated advances and borrowing pool at 4% of the opening 'credit ceiling' balance.

The method of calculating MRP on government supported borrowing was changed in 2015/2016 so that all debt is repaid in full over a 50 year period. Guidelines state that the period debt is repaid over for government supported borrowing should be "reasonably commensurate with the period implicit in the determination of that grant". Since business rates reform in 2013/2014, the changes made to the funding formula for RSG mean that there is no component of grant determining an implicit level of support for debt repayment. As a result it is no longer possible to relate grant received to any particular level or period of annual debt repayment that supports borrowing. Additionally, grants distributed to local authorities is controlled to a national limit which has been reduced substantially in recent years irrespective of the outstanding supported borrowing levels a council may have.

Given this lack of visibility on the level of grant support provided for debt and the known reductions to RSG in recent years it is estimated that only around 50% of the required 4% is now provided for i.e. 2%. This extended the repayment to 50 years which is considered reasonable given the Councils' asset portfolio to which the debt relates.

1.5 For borrowing where no support has been provided from the government, known as unsupported borrowing, the Council has previously used the Asset Life Method (option 3) for calculating MRP, with the MRP charge commencing in the financial year following the one in which the capital scheme the borrowing relates to is complete and the asset has come into service. It is felt that the depreciation method for calculating MRP (option 4) is subject to too much volatility when asset lives are reassessed as part of the revaluation process.

Estimated asset life periods will be determined under delegated powers. As some types of capital expenditure schemes incurred by the Council are not capable of being related to an individual asset, such as IT infrastructure, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives. The Council also reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

It is proposed that the Council continues to use the Asset Life Method (option 3) for calculating MRP on unsupported borrowing with the exception of any grants, deposits or loans made for capital purposes for which borrowing is taken out. In these cases it is proposed that MRP is based on the actual principal repayment schedule relating to the grant, deposit or loan provided.

1.6 It is proposed that MRP for both supported and unsupported borrowing continues to be calculated using an annuity method. The interest rate used to profile the MRP under the annuity method will be 3.50% which is the discount rate used by the government in its Green Book when assessing long term projects and is similar to the Council's current interest paid on borrowing (3.26%). Government guidelines support use of the annuity method to calculate MRP for option 3 and the interest rate used to profile MRP will be reviewed annually to ensure that it is still appropriate.

Use of the annuity method means the MRP that is applied to Council borrowing will increase each year until the borrowing is repaid at the end of the asset life (or after 50 years in the case of supported borrowing). This method means that provision for debt repayments better reflects the time value of money i.e. where paying £100 in 20 years' time is less of a burden than paying £100 now and it means that costs will be spread more evenly amongst the council tax payers that will get benefit from the capital expenditure. It is therefore considered the fairest methods to use.

Use of the annuity method does not increase overall levels of debt but does mean that the level of capital expenditure financed by borrowing, the Capital Financing Requirement (CFR) will initially reduce more slowly than using the equal instalment method as the amount of MRP applied in early years is lower. The consequence of debt being repaid more slowly will be that the

Council incurs a higher interest cost (although the net present value of the additional costs incurred compared to other methods of providing from MRP is neutral).

A major benefit of the recommended policy is that the Council's Capital Financing requirement for supported borrowing will be eliminated more quickly than under DCLG options 1 or 2. The proposed method will fully write down the CFR for supported borrowing to zero over the 50 years period whereas options 1 and 2 would leave a balance remaining in perpetuity. These proposals for MRP therefore ensure that prudence is maintained and strengthened as debts are provided for more quickly and more transparently.

1.7 Given budget pressures, it is proposed that opportunities for utilising the prudential framework by taking out additional borrowing, be restricted to a level where provision has been made within the revenue budget and where the expenditure will either be used to support the Council's key priorities in terms of regeneration plans and strategic priorities, to fund invest to save schemes, or to support asset purchases where option appraisal of funding through borrowing instead of leasing is appropriate. The revenue budget is framed to enable such levels to be affordable and sustainable into future years.

1.8 Accounting standards require assets purchased through finance leases and PFI contracts to be included on the Council's balance sheet. MRP policy used by the Council will ensure that there will be no impact on council taxpayers from revisions to accounting standards. The amount of MRP to be made will be set to ensure that the finance charge and MRP for finance leases and on-balance sheet PFI schemes is equal to the rental or service charge payable in the income and expenditure account for the year, which writes down the balance sheet liability of those assets i.e. the annual MRP charge will be an amount equal to the amount that has been taken to the balance sheet to reduce the liability for that asset.

1.9 In summary, it is recommended that the Council approves the Minimum Revenue Provision Statement for 2018/2019:

a) For all government supported borrowing the Council will continue its policy of repaying borrowing over 50 years using the annuity method with the interest rate used to profile MRP being set at 3.5%.

b) For all unsupported borrowing the Council will adopt Option 3 and make MRP repayments using the annuity method with the interest rate used to profile MRP being set at 3.5%. The estimated useful life of an asset will be assessed by the Executive Director of Corporate Services in consultation with appropriate officers. The MRP charge will commence in the financial year following the one in which the capital scheme the borrowing relates to is complete and the asset has come into service.

c) For MRP payments in relation to finance leases and PFI contracts, the amount of MRP to be made will be set to ensure that the finance charge and MRP for finance leases and on-balance sheet PFI schemes is equal to the rental or service charge payable in the income and expenditure account for the year, which writes down the balance sheet liability of those assets.

d) The Council will vary MRP payments to that indicated by the adoption of Option 3 where it has taken out unsupported borrowing to provide grants, deposits or loans for capital purposes. In these cases it is proposed that MRP is based on the actual principal repayment schedule relating to the grant, deposit or loan provided. The likely repayment of these loans will be assessed as part of the budget monitoring process and if it is estimated that there is likely to be a default on repayments then alternative arrangements will be made to repay any shortfall through an increase in MRP.

e) That the Council continue its policy of reducing MRP for 20 years from 2016/2017 by a fixed amount of £2.176m each year until 2036/2037. This reduction is in respect of overprovision of MRP made for the period 1st April 2008 to 31st March 2016 had the Council followed its current policy for calculating MRP.

f) Changes to the Council's MRP policy will be made where the Executive Director of Corporate Services determines that such a revision will reduce future years' debt repayment requirements and provide value to the Council. This action, if used, would be reported to Cabinet accordingly.

Treasury Management Policy Statement

In line with CIPFA recommendations, on the 3rd March 2010 the Council adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Council defines its treasury management activities as: "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

  The Council has an agreed Borrowing and Investment Strategy, the high level policies of which are as follows:

  The basis of the agreed Borrowing Strategy is to:
  - continuously monitor prevailing interest rates and forecasts;
  - secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable;
  - use a benchmark financing rate of 3.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
  - take advantage of debt rescheduling opportunities, as appropriate.

  The general policy objective for the Council in considering potential investments is the prudent investment of its treasury balances.
  - the Council's investment priorities in order of importance are:
    1) The security of its capital
    2) The liquidity of its investments and then
    3) The Council aims to achieve the optimum yield on its investments but this is commensurate with the proper levels of security and liquidity
  - the Council has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert TM advice, view of money market conditions and using detailed rating agency information as well as using our own market intelligence.
  - Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which is regularly reviewed.

The Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2018/2019 as it does every year.

Treasury Management Strategy Statement for 2018/2019

1. Introduction

1.1 The Local Government Act 2003 and subsequent guidance requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing both its borrowing and its investments, which gives priority to the security and liquidity of those investments.

The suggested strategy for 2018/2019 is set out below and is based upon the Executive Director of Corporate Services' views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Link Asset Services.

In December 2017 CIPFA issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. DCLG are also consulting on changes to the Guidance on Local Government Investments and to the Statutory Guidance on Minimum Revenue Provision with any changes anticipated to take place from 1st April 2018. A particular focus of these revised codes is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a higher level than can be attained by treasury investments. Changes to the CIPFA code and proposed changes to the CLG Guidance on Investments are considered within the Treasury Management Strategy and officers will report to members any further implications to the Council of these new codes once the final version of the CLG guidance has been published.

1.2 The treasury management strategy covers:

A. Borrowing Policy and Strategy

- treasury limits for 2018/2019 to 2020/2021
- current treasury management position
- prudential and treasury management Indicators for 2018/2019 to 2020/2021
- prospects for interest rates
- the borrowing strategy
- the borrowing requirement 2018/2019
- policy on borrowing in advance of need
- debt rescheduling

B. Annual Investment Policy and Strategy

- investment policy and objectives
- the investment strategy
- investment types
- investment limits
- provision for credit related losses
- creditworthiness policy
- monitoring of credit ratings
- past performance and current position
- MiFID ll
- outlook and proposed investment strategy
- external fund managers
- policy on use of external service providers

2. Borrowing Policy and Strategy

2.1 Treasury Limits for 2018/2019 to 2020/2021

It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax (and council rent levels where relevant) is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and two successive financial years and details can be found in Appendix 5 (P5) of this report. The Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Services, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long term liabilities where this would be appropriate. Any such changes made will be reported to Cabinet and the Council at their next meetings following the change.

Also, the Council is requested to approve the Operational Boundary Limits (P6) which are included in the Prudential Indicators set out in Appendix 5. This operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Council is also asked to delegate authority to the Executive Director of Corporate Services, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

2.2 Current Treasury Management Position

2.2.1 Interest Rates 2017/2018

The Bank of England's (BoE) Monetary Policy Committee (MPC) voted at its 2nd November 2017 meeting to increase the Bank Rate by 0.25% to 0.50%, the first increase since July 2007. This increase reverses the emergency cut made in August 2016 after the EU referendum and had been strongly signalled in advance at the September MPC meeting. The increase was made primarily to reduce inflationary pressures within the economy and had been priced into markets. The MPC also gave forward guidance that they expected to increase the Bank Rate very gradually and to a limited extent twice more in the next three years to reach 1.0% by 2020. Link Asset Services, the Council's treasury advisors, now predict that on current trends base rates will increase by 0.25% towards the end of 2018, 2019 and late summer 2020.

Economic and interest rate forecasting remains difficult, with Brexit and many other external factors influencing the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. The MPC, having previously expressed concern over the apparent lack of significant progress in Brexit negotiations sounded more optimistic in December, noting that recent progress in negotiations had reduced the likelihood of a disorderly exit from the EU. However, developments regarding the UK withdrawal from the EU remain the most significant influence on, and source of uncertainty about, the economic outlook. Geopolitical developments throughout the world but particularly conflict in the Middle East and between the US and North Korea, could also have a major impact.

PWLB rates have remained at historically low levels in 2017/2018 and the expectation is still for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. This expected increase in bond yields has not happened as the action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

US monetary policy has now started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures. A world economic recovery will likely see investors switching from the safe haven of bonds to equities.

It is likely that from time to time gilt yields, and therefore PWLB rates, will be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time over the next few years.

The government introduced a 0.20% discount on PWLB loans under the prudential borrowing regime in March 2012 for those authorities that provided ‘improved information and transparency on their locally determined long-term borrowing and associated capital spending plans’. The Council successfully applied to access PWLB loans at a discount of 0.20% and has been successful in extending its access to the PWLB certainty rate until 31st October 2018.

The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 8th January 2018.

2017/2018	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %	Qtr 3* (Oct – Dec) %	Qtr 4* (rates to 8th Jan 2018) %
7 days' notice	0.11	0.11	0.28	0.28
1 year	0.87*	1.01*	1.18*	1.22*
5 year	1.23*	1.37*	1.58*	1.59*
10 year	1.89*	2.01*	2.13*	2.10*
25 year	2.60*	2.69*	2.73*	2.66*
50 year	2.34*	2.44*	2.44*	2.38*

*rates take account of the 0.2% discount to the PWLB rates available to eligible authorities that came into effect on 1st November 2012.

2.2.2 **Long Term Borrowing 2017/2018**

The Council's strategy for 2017/2018 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.50% for long-term borrowing was set in light of the views prevalent at the time the Treasury Management policy was set in March 2017.

Volatility in the financial markets in Quarters 1 and 2 continued in Quarter 3 leading to considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. As a result the Council has taken out £10 million of new borrowing during the financial year as these rates were considered opportune. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
48½ years	03/11/2017	07/11/2017	07/05/2066	2.41	10.0

Since taking out this new borrowing rates rose before falling to around the levels at which additional borrowing was taken out. The position is subject to large variations but the overall longer term expectation is for gilt yields and PWLB rates to rise, albeit gently. The Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future Capital Programme requirements.

The Borrowing Strategy for 2017/2018 made provision for debt rescheduling but due to the proactive approach taken by the Council in earlier years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place. Rates have not been sufficiently favourable for rescheduling in 2017/2018 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

The Council has seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and the Council can either accept the new rate or repay the loan without penalty. The following table shows the LOBO's that were subject to a potential rollover this financial year. No changes to loan rates have been received and none are expected for the outstanding rollover period LOBO's with Dexia Credit Local and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
27/01/2018	Dexia	5.0	4.32	Every 3 years
21/04/2017 And 21/10/2017	Barclays	5.0	4.50	Every 6 months
10/12/2017	Barclays	9.5	4.37	Every 3 years
Total		**19.5**		

2.2.3 Current Portfolio Position

The Council's treasury portfolio position at 31st December 2017 comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	207.8		
	Market	39.6		
	Other	4.2	251.6	3.57
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			**279.2**	**3.26**
Total Investments	In house – short term*		**143.9**	**0.62**
Net Deficit			**135.3**	

* The total investments figure includes monies invested on behalf of ANEC which agreed with its member authorities that the Council would invest its surplus funds.

The Council currently has a net deficit of £135.3m which represents the difference between gross debt and total investments and is significantly lower that the Council's capital financing requirement (capital borrowing need). This means that the capital borrowing need has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and it also reduces counterparty risk. The net deficit position is expected to increase over the next few years as the Council has to manage its finances with significantly less government funding. This is likely to impact in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council will increase.

There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable amount of investments.

Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Council is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps the Council to address its Strategic Priorities;
- of more importance, the Council has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

Risks associated with holding a high level of investments are;

- the Counterparty risk – institutions cannot repay the Council investment placed with them;
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Council.

The Council has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

2.3 **Prudential and Treasury Management Indicators for 2018/2019 – 2020/2021**

Prudential and Treasury Indicators (as set out in Appendix 5) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice.

The requirement for the Council to indicate it has adopted the CIPFA Code of Practice on Treasury Management has been removed in the revised 2017 edition of the code. However this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002 and the revised Code in 2011 was adopted by the full Council on 3rd March 2012. The Council re-affirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 7).

2.4 **Prospects for Interest Rates**

The Council's treasury advisors are Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates. A number of current City forecasts for short term (Bank Rate) and longer fixed interest rates are set out in Annex A. The following gives the Link Asset Services Bank Rate forecast for the current and next 3 financial years.

- 2017/2018 0.25% - 0.50%
- 2018/2019 0.50% - 0.75%
- 2019/2020 0.75% - 1.00%
- 2020/2021 1.00% - 1.25%

There are downside risks to these forecasts if economic growth were to fall significantly and upside risks if inflation is significantly higher than expected alongside a higher than expected level of economic growth or if world economic activity and US interest rates increase faster than anticipated. However it is clear that interest rates will remain at historically low levels into the medium term which will keep investment returns at very low levels and there will remain a cost of carry to any new borrowing due to incurring a revenue loss between borrowing costs and investment returns. A detailed view of the current economic background is contained within Annex B to this report. The position will be closely monitored to ensure the Council takes appropriate action as necessary under either scenario.

2.5 **Borrowing Strategy**

The capital expenditure plans set out in Appendix 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.6 **Borrowing Requirement 2018/2019**

The Council's potential borrowing requirement is as follows**:**

		2018/19 £m	**2019/20 £m**	**2020/21 £m**
1.	Capital Programme Borrowing	**86.0**	**25.3**	**17.9**
2.	Replacement borrowing (PWLB)	**5.0**	**5.0**	**4.0**
3.	Replacement LOBO	**20.0**	**10.0**	**19.5**
	TOTAL:	**111.0**	**40.3**	**41.4**

2.6.1 **Borrowing rates**

The Link Asset Services forecast in respect of interest rates for loans charged by the PWLB is as follows:-

Date	**Bank Rate %**	**PWLB Borrowing Rates (including certainty rate adjustment) %**		
		5 year	**25 year**	**50 year**
March 2018	0.50	1.60	2.90	2.60
June 2018	0.50	1.60	3.00	2.70
Sept 2018	0.50	1.70	3.00	2.80
Dec 2018	0.75	1.80	3.10	2.90
March 2019	0.75	1.80	3.10	2.90
June 2019	0.75	1.90	3.20	3.00
Sept 2019	0.75	1.90	3.20	3.00
Dec 2019	1.00	2.00	3.30	3.10
March 2020	1.00	2.10	3.40	3.20
June 2020	1.00	2.10	3.50	3.30
Sept 2020	1.25	2.20	3.50	3.30
Dec 2020	1.25	2.30	3.60	3.40

Date	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment) %		
		5 year	25 year	50 year
March 2021	1.25	2.30	3.60	3.40

A more detailed forecast from Link Asset Services is included in Annex A.

The main sensitivities of the forecast are likely to be;

- if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the US Federal Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, an increase in world economic activity or a sudden increase in UK inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still lower than they will be in the next few years.
- if it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around a relapse into recession, an increase in Geopolitical risks abroad or, a risk of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

Council officers, in conjunction with the Council's treasury advisers, monitor both the prevailing interest rates and the market forecasts. The Executive Director of Corporate Services, taking into account potential market volatility and the advice of the Council's treasury adviser, considers a benchmark financing rate of 3.50% for any further long-term borrowing for 2018/2019 to be appropriate.

It is possible that a Municipal Bonds Agency, currently being set up by the Local Government Association, will be offering bonds to local authorities in the future. The rates offered by the new Agency will be assessed and use made of this new source of funding where it is considered advantageous.

Consideration will be also given to other options, including further utilising some investment balances to fund the borrowing requirement in 2018/2019. This policy has served the Council well over the last few years as investment returns continue to be low. As a result the Council is currently maintaining a large under-borrowed position. This position will be carefully reviewed to avoid incurring higher borrowing costs over the long term whilst ensuring that financing is available to support capital expenditure plans. The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required, and flexibility needs to be retained to adapt to any changes that may occur.

The Executive Director of Corporate Services, taking advice from the Council's treasury advisers will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

2.7 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely to profit from treasury investments of the extra sums borrowed. Any decision to borrow in advance will be assessed within the relevant Capital Financing Requirement estimates, with regard to current policies, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance of activity will be subject to appraisal and any borrowing undertaken will be reported to Cabinet as part of the agreed reporting arrangements.

2.8 Debt Rescheduling

The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However in 2007 the PWLB introduced a spread between the rates applied to new borrowing and repayment of debt which was compounded in 2010 by a considerable further widening of the difference between new borrowing and repayment rates and it has meant that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Council.

The latest interest rate projections for 2018/2019 show short term borrowing rates will be cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long term debt to short-term debt. These potential savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The Council is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

Any rescheduling undertaken will be reported to Cabinet, as part of the agreed treasury management reporting arrangements.

3. Annual Investment Policy and Strategy

3.1 Investment Policy and Objectives

When considering its investment policy and objectives, the Council has taken regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance"), proposed new CLG guidance that is currently being considered and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council's investment objectives are:-
- (a) the security of capital, and
- (b) the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments but this is commensurate with proper levels of security and liquidity.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Council is regarded as low in order to give priority to security of its investments.

The borrowing of monies for treasury management activities purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

3.2 Investment Strategy

This Strategy sets out:
- the guidelines for choosing and placing investments;
- the maximum periods for which funds may be prudently committed in each class of investment;
- the amount or percentage limit to be invested in each class of investment;
- specified investments that the Council will use;
- non-specified investments that the Council will use, clarifying the greater risk implications, identifying the general type of investment that may be used and a limit to the overall amounts of various categories that can be held at any time.

3.3 Investment Types

The Council is allowed to invest in two types of investment, namely Specified Investments and Non-specified Investments.

Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Council has set additional criteria to limit the time and amount of monies that will be invested with these bodies.

Non-specified Investments are any investments which are not classified as specified investments. As the Council only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-specified Investments.

The type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local authority bonds, bond funds, gilt funds, and gilt edged securities and will follow the criteria as set out in Annex C.

The Council may make other type of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investments activity covers those investments which arise from the Council's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

Investments that may be made for policy reasons outside of normal treasury management activities may include;

- service investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration. This may include loans to local enterprises as part of a wider strategy for local economic growth
- commercial investments which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures; or investments explicitly taken with the aim of making a financial surplus for the Council. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

The Executive Director of Corporate Services will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the council's risk exposure.

Investment objectives in relation to these types of investments will still be primarily security and liquidity but with the understanding that the liquidity for these types of investments may be less than those for treasury management activities and that these may be subject to higher levels of risk. When non-treasury management investments are considered due diligence will take place with all proposed investments being subjected to a detailed financial appraisal that will include financial sustainability of the investment and the identification of risk to both capital and returns. An assessment against loss will be carried out periodically and if the value of non-financial investments is no longer sufficient to provide security against loss mitigating actions will be taken. Decisions relating to non-treasury management investments will follow appropriate governance arrangements.

3.4 Investment Limits

One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the Council's Counterparty criteria set out in Annex C.

The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £15 million. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of these short-term investments maturing within 6 months.

A maximum limit of £75 million is to be set for in-house non-specified investments over 365 days up to a maximum period of 2 years (excluding non-treasury management investments and all other investments defined as capital expenditure). This amount has been calculated by reference to the Council's cash flows, including the potential use of earmarked reserves. The Executive Director of Corporate Services will monitor long-term investment rates and identify any investment opportunities if market conditions change.

3.5 Provisions for Credit Related Losses

If any of the Council's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This position has not occurred and the Council mitigates this risk with its prudent investment policy.

3.6 Creditworthiness policy

The creditworthiness policy adopted by this Council takes into account the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's). Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the Council's counterparty criteria.

Following the financial crisis of 2008 it was recognised that investors, who largely remained unaffected through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. Regulatory changes that have been made in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail.

To reflect this and commencing in 2015, in response to the evolving regulatory regime, the three credit rating agencies have carried out a wider reassessment of methodologies. In addition to the removal of implied government support, new methodologies are now taking into account additional factors, such as regulatory capital levels.

In keeping with the agencies' new methodologies, the rating element of our credit assessment process now focuses solely on the Short and Long Term ratings of an institution. The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. While this council understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA. This is due to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress the ongoing regulatory changes made in the UK and the rest of Europe are designed to make the financial system sounder. In the majority of cases implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and the Council will continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings provided.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

In summary the UK financial institutions have stregthened their Balance Sheets to better accommodate the impact of another financial crisis. As a result, government intervention would become limited if at all and Bail-In arrangements would apply if banks were to fail. This increases the risk of depositors but only to the extent the institution can not withstand the total losses.

Set out in Annex D is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment. If the Council's own banker, National Westminster Bank plc should fail to meet the minimum credit criteria to allow investments from the Council then balances will be minimized as far as possible.

3.7 **Monitoring of Credit Ratings**

- All credit ratings are monitored on a daily basis. The Council has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services counterparty service.
- If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the Council will cease to place funds with that counterparty.
- If a counterparty's rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment limit and vice versa.

Should the UK Government AA sovereign rating be withdrawn the Council's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to Cabinet.

3.8 **Past Performance and Current Position**

During 2017/2018 the Council did not employ any external fund managers, all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below and compares this with the relevant benchmarks and performance from the previous year:

Return	2016/17 Benchmark %	2016/17 Return %	To date 2017/18 Benchmark %	To date 2017/18 %
Council	0.20	0.83	0.17	0.62

During 2018/2019 the Council will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Council uses the 7 day London Interbank Bid (LIBID) rate as a benchmark for its investments. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market. The rate of return achieved is also in the top quartile according to our external Treasury Management advisors who have benchmarked our performance with other authorities.

3.9 **MiFID II**

New European Financial Directives known as MiFID II came into force on 3rd January 2018. These directives are designed to strengthen transparency and investor protection in financial markets across the EU. Under the directives each client is classed as either retail or professional. All Local Authorities are initially classified as de facto retail counterparties under MiFID II but with the option to ask to opt up to professional status subject to meeting qualitative and quantitative criteria. Financial Institutions dealing with a number of regulated products including direct investments such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds (including Money Market Funds) will only be able to deal with professional clients. The Council has opted up to professional client status with a number of financial institutions to allow access to specific products and will seek to opt up to with others where this is appropriate.

3.10 Outlook and Proposed Investment Strategy

Based on its cash flow forecasts, the Council anticipates its fund balances in 2018/2019 are likely to range between £15 million and £150 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2017/2018 short-term interest rates have been materially below long-term rates and some investment balances have been used to fund some long-term borrowing requirements. It is likely that this will continue into 2018/2019 with investment balances being used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

The Council is not committed to any investments which are due to commence in 2018/2019 (i.e. it has not agreed any forward deals).

Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing), will affect cash flow and short term investment balances;
- Any reprofiling of capital expenditure from, and to, other financial years will also affect cash flow, (no reprofiling has been taken into account in current estimates);
- Any unexpected capital receipts or other income;
- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

The Executive Director of Corporate Services, in conjunction with the Council's treasury adviser Link Asset Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

It is proposed that delegated authority continues for the Executive Director of Corporate Services, in consultation with the Cabinet Secretary, to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively, in accordance with normal treasury management reporting procedures.

3.11 **External fund managers**

At present the Council does not employ any external fund managers.

Should the Council appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These will be reported to Cabinet for agreement prior to any external fund manager being appointed.

3.12 **Policy on the use of external service providers**

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remain with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

4. **Scheme of delegation**

4.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy (TMS) is approved annually by the full Council and receives, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. In addition quarterly reports are made to Cabinet and the Audit and Governance Committee and monitoring reports are reviewed by members in both executive and scrutiny functions respectively. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has the following reporting arrangements in place in accordance with the requirements of the Code: -

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement	Full Council	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – mid year report	Full Council	Mid year

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy –updates or revisions at other times	Full Council	As appropriate
Annual Treasury Management Outturn Report	Full Council	Annually by 30/9 after the end of the financial year
Treasury Management Monitoring Reports	Executive Director of Corporate Services	Monthly
Treasury Management Practices	Executive Director of Corporate Services	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly

5. The Treasury Management Role of the Section 151 Officer

5.1 The Executive Director of Corporate Services is the Council's Section 151 Officer and has specific delegated responsibility in the Council's Constitution to manage the borrowing, financing, and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council. This includes;

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Annex A

Interest Rate Forecasts

The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy).

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Appendix 8 Continued

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.50%	2.70%	2.90%	2.90%	2.90%	3.05%	3.05%	3.15%	3.15%	3.40%	3.40%	3.65%	-

Annex A

Survey of Economic Forecasts

HM Treasury November 2017

The current 2017 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury November 2017 report.

BANK RATE FORECASTS	Annual Average Bank Rate Ave. 2017	Ave. 2018	Ave. 2019	Ave. 2020	Ave. 2021
Average	0.39%	0.65%	0.98%	1.41%	1.70%
Highest	0.50%	0.92%	1.50%	2.10%	1.50%
Lowest	0.29%	0.50%	0.50%	0.50%	0.50%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2017 (No.366)

Annex B

Economic Background

1.1 United Kingdom Economy

The UK economy grew strongly in 2016 however growth in 2017 has been weak with growth in quarter 1 being +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017surprised forecasters by taking a more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. The MPC focus in deciding that the base rate should increase to reduce inflation based on the view that an increase in rates would not damage the economy as with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. The Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November 2017 meeting, the MPC approved a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is a relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the likely coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area, in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it appears to be too early to be confident about how the next two to three years will evolve.
Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU popularist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.

- The result of the October 2017 Austrian general election has resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major obstacle to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of quantitative easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

1.2 Global Outlook

World growth is showing an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October the IMF upgraded forecasts for world growth from 3.2% to 3.6% for 2017 & 3.7% for 2018.

In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). The cause of this is probably the combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the fourth industrial revolution.

Globally, looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that this period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither limit economic recovery by taking too rapid and too strong action, or, alternatively, letting inflation increase by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks.

There is also a key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the low level of productivity growth, which may be the main driver for increases in wages; and decreasing consumer disposable income, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether an inflation target for central banks of 2%, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a lower inflation target of 1% to emphasise the need to keep inflation from rising to high levels. Alternatively, it is possible that a central bank could simply ignore the overall 2% inflation target in order to take action in raising rates sooner than might otherwise be expected.
- Other economists argue for a shift up in the inflation target to 3% in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should target financial market stability. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that other non-financial asset prices, particularly house prices, have been driven up to high levels when compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

The Eurozone

Economic growth in the Eurozone (EZ), the UK's biggest trading partner, had been low for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. Growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). Despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA

Growth in the American economy was notably erratic and volatile in 2015 and 2016 with 2017 following that trend with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates three increases in 2017 with the rate now at 1.50%. There could then be another three increases in 2018 and 2019. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Asia

Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Elsewhere in Asia, GDP growth in Japan has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However it is still struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Annex C

Lending List Criteria

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					40	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These new limits are as follows:

Country Limit
It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	350
Non-UK	100

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Annex D.

Annex D

Approved Lending List

	Fitch		**Moody's**		**Standard & Poor's**			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA	-	Aa2	-	AA	-	350	2 years
Lloyds Banking Group							**Group Limit 65**	
Lloyds Bank Plc	A+	F1	Aa3	P-1	A	A-1	65	364 days
Bank of Scotland Plc	A+	F1	Aa3	P-1	A	A-1	65	364 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Baa3	P-3	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A2	P-1	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A2	P-1	BBB+	A-2	80	2 years
Santander Group							**Group Limit 65**	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A1	P-1	A	A-1	65	364 days
Clydesdale Bank *	BBB+	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B-	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Nationwide BS	A+	F1	Aa3	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A3	P-2	-	-	50	364 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	A1	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	A1	P-1	AA-	A-1+	70	364 days
Toronto Dominion Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Finland	AA+		Aa1		AA+		100	2 years
OP Corporate Bank plc	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Netherlands	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JP Morgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA rating applied to them thus giving them a credit limit of £80m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.