RYEDALE DISTRICT COUNCIL

REPORT TO:	**Policy and Resources Committee**
DATE:	**3 January 2008**
REPORTING OFFICER:	**John Patten, Interim Chief Financial Officer**
SUBJECT:	**Capital Strategy 2008/09 to 2011/12**

1. PURPOSE OF REPORT

1.1 This report sets out a strategy and the proposed individual schemes for inclusion in the Council's capital programme for the years 2008/09 to 2011/12.

2. RECOMMENDATIONS

2.1 Members are asked to:

(a) receive the report
(b) note the latest out-turn position for 2007/08
(c) approve the strategy as set out in the report for the years 2008/09 to 2011/12 and as shown in Annex A (i)
(d) agree funding arrangements as set out in section 7.2 of the report
(e) submit the agreed Capital Programme to the Council

3. REASONS SUPPORTING DECISION

3.1 There is a duty within the Council's constitution that Members must approve a strategy and capital budget for future years. Members must also be regularly informed of progress with the capital programme.

3.2 There are greater freedoms relating to borrowing in particular and capital funding in general under the Prudential Code. Details are contained in paragraph 4.2 below.

4. BACKGROUND

4.1 The framework for managing and monitoring the capital programme is contained within the Capital Strategy Statement and Constitution.

4.2 Regulations made under the Local Government Act 2003 give statutory force to the Prudential Code for Capital Finance in Local Authorities, as prepared by CIPFA. The controls are based on affordability, prudence and sustainability and take account of the impact of Capital Investment Strategies on council tax levels for the current and subsequent financial years. This does give the flexibility to fund schemes by borrowing provided the resultant debt charges can be paid back without significant rises in council tax levels. To comply with the Code, Members must approve certain indicators for 2008/09 and these will be included in the final budget report to full Council.

5. INTRODUCTION

5.1 Service Unit Managers have previously submitted bids in accordance with Service Delivery Plans. Members have also contributed by bringing forward schemes and generally debating the shape and funding of the programme.

5.2 A programme of schemes involving capital expenditure during the next four years is submitted for the consideration of the Policy and Resources Committee. Annex A (i) provides a brief description of each scheme, the estimated cost, details of any external funding and revenue implications.

5.3 Monitoring reports for the current capital programme have been submitted to the Resources Working Party on a regular basis.

6. POLICY CONTEXT

6.1 The report complies with the Prudential Code for Capital Finance in Local Authorities and is in accordance with the Capital Strategy Statement and the Asset Management Plan.

6.2 This report affects many services of the Council and takes account of its corporate priorities and key corporate objectives.

7. REPORT

7.1 2007/08 Capital Programme

7.1.1 Capital monitoring reports have been submitted to the Resources Working Party for the revised budget and forecast for 2007/08. The 2007/08 original budget was for capital expenditure of £3.759m with, following external funding, a net cost to the Council of £2.381m. This has been revised to a capital expenditure of £2.197m, with £1.363m being funded by the Council. The reduction in expenditure is primarily due to putting on hold the proposed Business Park / Managed Workspace scheme at Pickering.

7.1.2 Some new schemes have been re-phased into the 2007/08 capital programme, these include emergency asbestos work at the Milton Rooms, replacement of the fuel tank at the Council Depot and the Castle Gardens Malton project. Funding of £127k is available for these schemes, as they are included in the approved programme. Two other schemes that have been brought into the programme are 100% funded by external grant. They are the enhancement of the Disabled Facility Grant programme and the refurbishment of the Homeless Hostel at Castlegate, Malton.

7.2 2008/09 - 2011/12 Capital Programme

7.2.1 The strategy for the prioritisation of capital works ensures that priority schemes are included in the programme with funding provided and that any revenue implications are identified and incorporated in the Revenue Budget before schemes are approved.

7.2.2 Consequently the programme is split into six sections viz:

- Asset Management
- Priority Aims
- Major Schemes
- Externally Funded Schemes
- Investment Opportunities
- Other

7.2.3 The Capital Programme submitted for the consideration of the Policy and Resources Committee will amount to a capital investment of some £9.2m. The investment allocated to each of the six areas of the programme is shown in Annex A (i).

7.2.4 The total cost of the proposed four-year capital programme is £14.506m. After allowing for external funding of £5.307m the balance of £9.199m will require financing from the Council's funds.

7.2.5 Schemes relating to Asset Management comprise those that will result in the Council's assets being improved and operational life extended. These include works to land and buildings, vehicle replacement or IT upgrades of either hardware or software, in accordance with the Asset Management Plan and IT Strategy. These will be mainly funded from the Repairs & Renewals Reserve.

7.2.6 Schemes under Priority Aims are those where the Council has taken a deliberate decision that these will help satisfy its corporate objectives/key priorities. The priority aims have been established with Affordable Housing and Jobs at the top of the list. Schemes that directly support the achievement of these aims have been given priority in the capital programme.

7.2.7 Major schemes will require funding from either reserves or borrowing. These include the Central Dry Sports Facility and Pickering Flood Defences and a number of other potential schemes are included within the programme under "Opportunity Investments".

7.2.8 If a scheme is largely externally funded, then providing any revenue costs can be absorbed in the revenue budget, it should be allowed to proceed. There are no such schemes currently built into the programme.

7.2.9 On occasion investment opportunities present themselves. If funding is retained in the capital programme for such events this could impact on the progress of other schemes. Headings are retained in the programme but if and when funding is needed it will come, in the first instance, from reserves.

7.2.10 All other schemes are prioritised using a scoring grid. Members have agreed to include in the programme a contribution to the Conservation Area Partnership scheme, which scored the highest in the grid. The remaining schemes are included on a reserve list of unprogrammed schemes. Details of those schemes on the reserve list are shown at the bottom of Annex A (i).

7.2.11 Funding for the four-year programme is available from a number of sources as shown below. In addition external grants for individual schemes are detailed in Annex A (i) and total £5.307m.

Funding Source	£000's
Assets - Repairs & Renewals Reserve	979
Assets – DSO Reserve	45
Investment Income Reserve	3,883
Capital Receipts Balances	2,792
Borrowing	1,500
	9,199

7.2.12 The main funds used to finance the capital programme have balances of some £8m, which, in turn, earn interest that is used to help fund both the capital and revenue budgets. Some of these Funds could be needed if opportunity investments arise. Finally, to achieve the required funding of the full programme the Council will need to borrow £1.5m.

7.2.13 One of the main priorities of the capital programme is to support affordable housing, which is a key objective of the Council. Various grant initiatives have been developed as part of the Private Sector Renewal Strategy and contribute to both the improvement of the private sector stock and enabling more vulnerable people to remain in their own homes.

7.2.14 A £9.2m capital investment will substantially reduce the level of the Council's reserves used for capital purposes from £8.3m to £3.2m. However, it is estimated that at the end of the four-year programme the amount of interest receipts generated from balances will still provide sufficient income to meet the funding strategy for the current affordable housing grants programme.

7.2.15 The revenue implications of the schemes are shown on Annex A (i). These total £60k for 2009/10, £190k for 2010/11 and £165k for 2011/12 and refer to the estimated net running costs of operating the large leisure and economic development schemes. In addition to the annual costs associated with these individual schemes, it is estimated that the cost of borrowing £1.5m will be in the region of a further £135k on the revenue account for 2011/12.

7.2.16 The Resources Working Party reviews the capital programme at regular intervals. The schemes outlined need to be worked up to identify all the implications before final approval. Members can then take an informed view and consider any impact on the revenue budget.

7.2.17 Similarly if slippage occurs or opportunities arise again the programme can be revised and unprogrammed schemes brought forward. If urgent action is required the Resources Working Party can review the situation at any time.

7.2.18 It must be remembered however, that there are limited staff resources to enable the programme to be significantly expanded without more use being made of technical consultants. These costs should be incorporated in the projected costing of the individual schemes. To support the implementation of the capital programme the decision has been made to appoint a Programme Manager.

8. OPTIONS

8.1 The recommendations enable major schemes to be included in the programme while complying with the need to set priorities and taking account of funding realities. The prioritisation process should ensure that schemes complying with the Council's corporate objectives and key priorities are given preference.

9. FINANCIAL IMPLICATIONS

9.1 The financial implications are set out in the report.

10. LEGAL IMPLICATIONS

10.1 There are no immediate implications.

11. ENVIRONMENTAL IMPACT

11.1 Individual schemes have varying environmental impacts. These will be reviewed and taken into account as detailed design work is undertaken.

11.2 Some schemes have been designed to have a positive impact on the environment e.g. energy improvements to RDC assets.

12. RISK ASSESSMENT

12.1 If the recommendations are accepted there should be fewer risks within the programme. However, resources are still scarce and there are few realisable assets left to sell. Consequently, with such scarce resources, it is imperative that schemes are completed on time and to budget. There are significant risks to future programmes if budgets are exceeded.

12.2 Further risks are inherent when schemes are to be funded from government grants that may not materialise. Where schemes require such funding it is imperative that a formal grant offer is received before the scheme is started. Similarly, appropriate assurance will be required with funding from the private sector.

12.3 In the case of any scheme funded from borrowing there is a risk that if budgets are exceeded there will be a consequent greater impact on revenue costs.

12.4 Some schemes will inevitably have revenue consequences and these must be taken into account before proceeding.

12.5 There are risks surrounding the letting together of two major contracts totalling £8m and plans need to be made to mitigate the risk.

13. CONCLUSION

13.1 The decision taken by Members last year to significantly increase the funding from capital reserves and from borrowing if required, provided the resources to undertake several major schemes that enable the Council to deliver against its agreed priority aims as contained in the Corporate Plan.

13.2 The capital programme that has been submitted for Members' consideration is very similar to the exiting programme with no new schemes included. It is considered appropriate in relation to the size of the authority and the funding available.

13.3 The approved programme will be incorporated into the Medium Term Financial Plan, Capital Strategy Statement and Asset Management Plan.

BACKGROUND PAPERS:

None

OFFICER CONTACT:

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