




TRANSFORMATION NEWS

We have re-shaped, we've changed; now we transform.

Transformation Event 

30 October 2019

CAPITAL STRATEGY

Investment in our capital assets including our schools, other properties, roads, bridges, vehicles and ICT plays a key role in the delivery of our public services and in the delivery of the Council's agreed priorities and objectives.

To identify ideas to develop and improve our approach to setting the Council's Capital Strategy, we brought together a range of managers and staff from across the Council, including those directly involved in the development and delivery of capital projects, to challenge existing thinking and approaches and to identify opportunities for change and improvement.

This Event provided opportunities to identify proposals that will ensure that our capital investments are focussed on supporting the delivery of the Council's agreed priorities and objectives in a manner that seeks to contribute to the need to identify cost reductions to help address the identified funding gap and also supports the Council's Climate Change Commitment.

SOME KEY FACTS

The Council plans to invest over **£440** Million in D&G over the next 10 years.

This equates to an average investment of over **£3,000** for every member of our community.

The current cost of repaying the debt on previous capital spending is **£24.3** Million per annum which represents 6.6% of the Council's annual budget.

Average Interest Rate Paid on Debt **3.05%** v National Average of **3.8%**.

£10 Million of capital investment results in repayments of **£700k** per year for **25** years.

The Council's capital assets include **4,200km** of roads, **105** schools, over **400** other buildings and over **900** vehicles.

Recent investments include Dumfries Learning Town Phase 1 (**£75M**), DGOne (**£21M**), Kirkcudbright Art Gallery (**£4M**) and Energy Efficiency Spend to Save (**£10M**).

Capital spending funded through General Government Grant (**47%**), Specific Grants (3%), Receipts (1%) & Borrowing (**49%**)



FOCUS ON OUR PRIORITIES

Key Event Questions

During the session we generated ideas based on the following questions:

- How can we develop our capital project planning & management arrangements?
- What are our key capital investment priorities and how should these be determined?
- How do we balance our capital investment between new developments and the need for investment in existing assets?
- How much can we afford to spend on capital investment?
- How can we make savings through our Capital Strategy?
- What should our medium/long term Capital Strategy look like?

KEY MESSAGES from the workshops at the event

The things that we can do quickly to ...

- Establish revised arrangements for major project development, including explicit funding arrangements, to ensure that project scopes, costings and timings are sufficiently developed before Members are asked to commit to projects
- Review and develop specific **Spend to Save investment opportunities linked to the Council's Climate Change Commitment** including greater investment in electric vehicles and renewable energy (eg. solar panels on landfill sites)
- Review and develop specific **Spend to Save investment opportunities linked to the other Transformation Events** that have been held
- Review borrowing redemption periods to take fuller advantage of asset lifespans
- Continue to minimise the cost of borrowing through prudent and effective treasury management arrangements
- Review the existing approach to the allocation of investment funding - ie. the split between/within asset classes & priority projects and the approach taken to determining investment decisions including the use of scoring linked to Council priorities)
- Consider restriction of future capital spend to reduce the need for revenue savings through reduced borrowing costs.

What we will achieve by doing this:

- A more consistent approach to project development, costing and management
- Avoidance of change in project scope, cost and timings following approval of projects
- Reduction in carbon emissions and associated financial benefits
- Revenue savings through reduced annual borrowing repayments
- Closer alignment between investment decisions and the delivery of the Council's agreed priorities

£330M

Capital Investment since 2012

£440M+

Current Capital Investment Strategy over 10 years

Equates to an average investment of over **£3,000** for every member of our community over the next 10 years



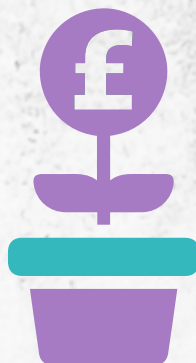
£75M

Dumfries Learning Town



£4M

Kirkcudbright Art Gallery



£21M

DGOne



£10M

Spend to Save (Energy Efficiency)

Opportunities to transform our Capital Strategy

- Development of **comprehensive asset management strategies** covering all investment areas (ie. property, infrastructure, vehicles, ICT etc) to better inform investment decisions
- Establishment of **consistent, standardised approach and disciplines for project identification, development, costing and management** across the Council and across all investment categories using established best practice guidance (eg. Treasury Green Book) to ensure delivery of agreed outcomes and benefits.
- Ensure **increased focus on lifecycle costing** and the identification of the ongoing revenue implications associated with investment proposals
- Develop the Council's internal capabilities and resource to manage capital projects through **consistent training and development arrangements** supported by succession planning
- **Increase the focus on Spend to Save opportunities** and requirements as part of developing a revised approach to developing the medium term capital investment strategy including attaching savings targets to proposed investments and linking investment to Community Asset Transfer opportunities
- **Increased focus on opportunities to contribute to the Council's Climate Change Commitment** when making investment decisions
- Revisit the arrangements for the identification of external funding opportunities when considering investment proposals to ensure that this is focussed on leveraging external funding to support Council priorities rather than Council investment decisions being driven by the availability of external funding.

Receive £18M per year Capital Grant from Scottish Government

Generate Capital Receipts of Approx. £0.5M per annum

Current Borrowing Costs = £25M per annum

Borrowing Costs = 6.6% of annual revenue budget

Cost of every £10M Borrowing:	£'000 per Annum
Over 5 years	2,300
Over 10 years	1,300
Over 20 years	800
Over 25 years	700
Over 30 years	650
Over 40 years	580

The difference this will make:

- Better informed investment decisions focussed on Council priorities and service needs
- Accurate and deliverable projects with greater clarity on project cost, quality, timings and outputs over the project lifecycle
- Greater clarity on revenue implications when decisions are taken on investment proposals
- Reduction in carbon emissions and associated financial benefits
- Revenue savings through reduced annual borrowing repayments
- Closer alignment between investment decisions and the delivery of the Council's agreed priorities
- Identification of external funding to support the delivery of Council priorities

The key challenges we face / enablers:

Challenges

- Lack of comprehensive asset condition data in some areas
- Lack of dedicated project managers and project management skills in-house
- Resourcing to develop, deliver and scrutinise the range of proposals identified
- The need to balance investment needs and expectations with affordability

Enablers

- Extension of Asset Management Planning Process
- Improved information on asset condition, functionality and service needs
- Development and training of staff to ensure effective project and programme management
- The Council's Climate Emergency Declaration and supporting Action Plan
- Treasury Management Strategy & Prudential Indicators
- Recognition and understanding from all stakeholders of the need for tough choices to balance competing demands and affordability

£35M 

Flood Schemes (Whitesands, Newton Stewart, Stranraer and Langholm)

What's Next?

The discussions and ideas from this working session will be used to help inform the development of the Council's Capital Strategy. As with all other Transformation Events, this information will be used to develop options which will be presented to Members during the period to December.

All outputs from Transformation Events will be shared with the public as part of budget consultation process.



FOCUS ON OUR PRIORITIES



CUSTOMER AND DIGITAL



MODERNISATION



FEWER ASSETS



SMALLER SKILLED WORKFORCE



INCOME GENERATION