

Your Ref:

Our Ref: 2009/Cttee/Full Council/CMcW

8 May 2009

**Chief Executive Service**

Committee and Member Services

English Street

DUMFRIES

DG1 2DD

Any enquiries please contact

Fiona Brown

Direct Dial (01387) 260031

Fax (01387) 260034

E-mail [Fiona.Brown@dumgal.gov.uk](mailto:Fiona.Brown@dumgal.gov.uk)

**TO ALL MEMBERS OF DUMFRIES  
AND GALLOWAY COUNCIL**

**DUMFRIES AND GALLOWAY COUNCIL –14 MAY 2009**

With reference to the agenda and papers circulated for the above meeting, I enclose the undernoted item of business:-

**8. CAPITAL INVESTMENT STRATEGY – DEVELOPMENT BLOCK FUNDING 2009/10 TO 2011/12** – Report dated 8 May 2009 by Executive Director Community and Support Services - *[Recommendation:-Members are asked to: (1) agree that the Town Centre Regeneration project (£16.812M) should be funded from the Council's Regeneration Fund; (2) agree that the Kirkcudbright Art Gallery project in its current form is not included at this stage in the prioritised list of development block projects; (3) agree that the Social Work Delivery Centres project is included in Members' list of priority projects; (4) agree that, as the Education Committee will be asked to review their investment priorities it is suggested that the Mouswald and St Mungo's Primary School projects are not considered for funding at this stage; (5) note the outline financial implications that could arise from incurring additional borrowing to support development block projects and the Roads and Regeneration Funds as detailed in Section 11 of **Appendix 4**; (6) note and consider the conclusions contained in **Appendix 4** that, taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the Council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging; (7) agree to only approve, at this stage, development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. In this respect, it is further suggested that support is given to the top five priority projects, as listed in Table B of para 11.5 as follows:-*

<b>Project</b>	<b>£'000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	£250
<b>Total</b>	<b><u>£11,627</u></b>

*(8) agree that further consideration will be given to funding the remaining projects as identified in the Table A at para 11.2 when the reports on the Roads and Regeneration Investment Funds are brought forward to the Corporate Policy Committee; and (9) agree that, before the summer recess, officers bring forward reports to the appropriate Service Committees reviewing progress on all development block projects including considering the cost of the project, phasing of expenditure and reviewing the timescale for completion of the project.]*

Yours sincerely

A handwritten signature in black ink that reads "Alex Haswell". The signature is written in a cursive style with a large initial 'A'.

Alex Haswell,  
Director Chief Executive Service.

Enc.

## CAPITAL INVESTMENT STRATEGY DEVELOPMENT BLOCK 2009/10 TO 2011/12

### 1. Reason for Report

To continue development of the Council's Capital Investment Strategy 2009/10 to 2011/12 and to request Members to agree the allocation of Development Block Funding.

### 2. Report Summary

2.1 At Corporate Policy on 7 April 2009 Members considered a report on Capital Investment Strategy – Development Block Funding 2009/10 to 2011/12, dated 3 April 2009 (**Appendix 1**). Following extensive and detailed consideration of this report the decisions reached were recorded in the minute (**Appendix 2**).

2.2 At Corporate Policy on 5 May 2009 the Minute of the April Committee was submitted for Members' approval. A debate then took place as to whether two schools projects, namely Mouswald Primary and St Mungo's Primary, should have been included in the list of priority projects. Following a vote Members could not reach agreement on the accuracy of the list of projects and following a further vote the matter was referred to Full Council for consideration. The extract of the Minute of that meeting is attached at **Appendix 3**.

2.3 Since that meeting and to provide Members with the fullest information the responsible officer was asked to update the estimated cost and phasing of both primary school projects. However as part of this process it has been established (para 10.1) that issues surrounding suitability and condition information together with a larger than anticipated reduction in the August 2009 enrolments for both schools has led to the Schools Estate Management group concluding that, in light of the these developments, the Education Committee will be asked to reconsider the priority status of these two schools.

2.4 Following Members' deliberations at previous committees a provision has been included for the SWSDC projects and that following the unsuccessful HLF bid no provision is made at this time for Kirkcudbright Art Gallery project. Table A of the report shows that the list of development block projects totals £43,925M against available 'budgeted' funding of £11.588M.

2.5 The report then suggests that, taking account of the additional information presented, that both the Mouswald and St Mungo's Primary School projects are not considered for funding at this stage. It is also suggested that the Town Centre regeneration project is supported from the Council's regeneration fund. These adjustments reduce the development block funding requirement to £23.917M as shown in Table B.

2.5 The report refers Members to section 11 of **Appendix 4** where advice is given on the financial implications that would accrue if Council incurred additional borrowing to, not only fund the listed development block projects, but also the Regeneration and Roads Funds. It is then concluded that taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the Council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging.

2.6 Members are then asked to consider a prudent approach and only approve at this stage development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. For Members assistance the first 5 projects listed in Table B Total £11.627M as follows:-

<b>Project</b>	<b>£'000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	<u>£250</u>
<b>Total</b>	<b><u>£11,627</u></b>

2.7 Members are then advised that further consideration will be given to funding the remaining projects when the reports on the Roads and Regeneration investment funds are brought forward to this Committee and once further information has been made available regarding future levels of Government Grant Support.

### **3. Glossary of Terms**

SEMP	-	School Estate Management Plan
PPP	-	Public Private Partnership
HLF	-	Heritage Lottery Fund
SWSDC	-	Social Work Services Delivery Centre

### **4. Recommendation**

Members are asked to:

4.1 agree that the Town Centre Regeneration project (£16.812M) should be funded from the Council's Regeneration Fund;

4.2 agree that the Kirkcudbright Art Gallery project in its current form is not included at this stage in the prioritised list of development block projects;

4.3 agree that the Social Work Delivery Centres project is included in Members' list of priority projects;

4.4 agree that, as the Education Committee will be asked to review their investment priorities it is suggested that the Mouswald and St Mungo's Primary School projects are not considered for funding at this stage;

4.5 note the outline financial implications that could arise from incurring additional borrowing to support development block projects and the Roads and Regeneration Funds as detailed in Section 11 of **Appendix 4**;

4.6 note and consider the conclusions contained in **Appendix 4** that, taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the Council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging;

4.7 agree to only approve, at this stage, development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. In this respect, it is further suggested that support is given to the top five priority projects, as listed in Table B of para 11.5 as follows:-

<b>Project</b>	<b>£'000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	<u>£250</u>
<b>Total</b>	<b><u>£11,627</u></b>

4.8 agree that further consideration will be given to funding the remaining projects as identified in the Table A at para 11.2 when the reports on the Roads and Regeneration Investment Funds are brought forward to the Corporate Policy Committee; and

4.9 agree that, before the summer recess, officers bring forward reports to the appropriate Service Committees reviewing progress on all development block projects including considering the cost of the project, phasing of expenditure and reviewing the timescale for completion of the project.

## **5. Plan Links and Contribution**

5.1 The content of this report is consistent with the Council's best value and continuous improvement and achieving the most efficient and effective use of financial resources.

5.2 Capital investment is crucially important to the Council as it provides the financial mechanism to support the achievement of the SOA and Corporate Plan objectives.

## **6. Resources/Value for Money Assessment**

The loan charges provision in the draft revenue budget assumes an annual borrowing requirement of £15M. If Members determine to increase or reduce the borrowing assumption then there will be an impact on future revenue budgets. Section 11 of **Appendix 4** identifies the revenue financial implications of incurring additional borrowing to support further capital investment.

## 7. Risk Assessment

7.1 The main risk is to ensure that capital expenditure is affordable, sustainable and prudent. Prudential indicators and monitoring reports are a means of ensuring that this risk is regularly reviewed and controlled.

7.2 Members have recently indicated a willingness to undertake additional prudential borrowing to increase capital investment levels. Given the current economic climate and uncertainty regarding the level of future Government grant support for Councils, there are obvious risks associated with committing to increased levels of borrowing which will result in associated loan charges over a number of years. To help address this risk this report recommends a prudent approach of restricting new approvals to the level of funding currently available within the Council's existing Capital Investment Strategy at this stage. Opportunities to support further projects will be considered following the development of plans for the Roads and Regeneration Investment Funds and once further information has been made available regarding future levels of Government Grant support.

7.3 To satisfy best value the Council must be able to evidence the decision-making process behind investment decisions. The Capital Investment Strategy, together with the bidding process and Asset Management Plans, provides the basis for decision-making.

## 8. Consultations

The Director of Chief Executive Service and Service Director Schools were consulted on this covering report and are in agreement with its terms. More extensive consultation was undertaken in preparing the report shown in **Appendix 4**.

## 9. Background

9.1 This report brings to Members' attention the sequence of events that resulted in Members of the Corporate Policy Committee agreeing not to exercise its delegation to consider the Capital Investment Strategy 2009/10 to 2011/12 Development Block funding.

9.2 At Corporate Policy on 7 April 2009 Members considered a report on Capital Investment Strategy – Development Block Funding 2009/10 to 2011/12, dated 3 April 2009 (**Appendix 1**). Following extensive and detailed consideration of this report the decisions reached were recorded in the minute (**Appendix 2**).

9.3 At Corporate Policy on 5 May 2009 the Minute of the April Committee was submitted for Members' approval. A debate then took place as to whether two schools projects, namely Mouswald Primary and St Mungo's Primary, should have been included in the list of priority projects. Following a vote Members could not reach agreement on the accuracy of the list of projects and following a further vote the matter was then referred to Full Council for consideration. A copy of the extract of the Minute of that meeting is attached at **Appendix 3**. On the agenda for the meeting of Corporate Policy Committee of 5 May 2009 was a report on Capital Investment Strategy 2009/10 to 2011/12 – Development Block Projects dated 29 April 2009 (**Appendix 4**). This report was compiled to facilitate Members' allocation of Development Block funding and was based on officers' understanding of the decision taken at the April Committee. As a consequence of Members being unable to agree the Minute of the April Committee the report was withdrawn.

## 10. Key Issues

10.1 In preparing the update report for Members, as shown in **Appendix 4**, responsible officers for each of the projects were requested to review the estimated cost and financial profile for each project. Following Members' decision at the May meeting, and the ambiguity over whether Mouswald and St Mungo's Primary School projects should have been included in the list of priority projects and in preparation for the presentation to Full Council, officers were asked to provide an update on the costs and phasing of both these school projects. The following information was obtained from the Service Director Schools:-

"The position in relation to these two schools is as follows –

- At the September 2008 meeting of the Education Committee, a SEMP Update report advised Members that the recently prepared Condition Surveys had resulted in 'C' rather than the previous 'D' ratings for both Mouswald and St Mungo's. Beattock remained a 'D'. As a result, Members sought further information in relation to St Mungo's for their next meeting. At that meeting they further deferred consideration of St Mungo's until land acquisition costs could be established. They also sought the same information in relation to Mouswald and this request was further confirmed in January.
- The September report (para 6.2) also raised the Value for Money concern in relation to the cost of new build for these schools – at this point including Beattock – the cost per pupil was estimated at £46K, against an comparable figure for the 2A schools of £28K.
- Subsequently, land acquisition negotiations at both Mouswald and St Mungo's sites have proved problematic. Estimated costs given to date specifically excluded an allowance for land acquisition. No such issues exist at Beattock as the current school would be decanted to Moffat primary at the completion of the PPP school, and the present Beattock Primary school demolished to make way for a new school.

Although no threat exists to the viability of these schools there is a further emerging issue regarding lower than anticipated school rolls for August 2009. Members of the Education Committee were advised in August 2008 that the roll projections for these two schools were relatively low –

- Mouswald - 2008/9 - 30, projected fall to 26 by 2017/18  
The 2009 enrolments show a larger than anticipated reduction – likely roll at August 2009 – 24, compared with the projection of 31
- St Mungo's – 2008/09 - 43, projected fall to 23 by 2017/18  
The 2009 enrolments show a larger than anticipated reduction – likely roll at August 2009 - 33, compared with the projection of 40

As a result of the changing situation, the School Estate Management Group has taken the view that, particularly as it appeared no funding had been allocated to Mouswald & St Mungo's, a further update should be provided to Members in August 2009, as part of the full SEMP update report. This will take account of the new Condition and Suitability Surveys as well as highlighting the position regarding School roll projections. In light of the above noted developments the Education Committee will be asked to reconsider the

relative priority status of these two schools having been given the most up to date information.”

## 11. Development Block Priority Projects

11.1 While there was some ambiguity over whether or not Mouswald and St Mungo's Primary School projects should have been included within the list of priority projects, there does not appear to be any dispute or ambiguity regarding the other projects within the Minute of the April meeting. It is therefore recommended to Full Council that the debate on determining Development Block investment priorities should centre around the shortlist of projects listed in the April Policy Committee Minute together with the addition of the two schools projects, namely Mouswald and St Mungo's.

11.2 The core conclusions and recommendations included in the report shown at **Appendix 4** have not changed. The only exception is whether or not the two additional school projects, Mouswald and St. Mungo's, are included in the list of priority projects being considered for Development Block funding. Table 2 from **Appendix 4** has been updated to include these two projects as undernoted. It should be noted that there was insufficient time for officers to review the costing and phasing of these two additional schools projects. The table shows that to progress all the projects would require a capital investment of £43.925M.

PROJECT	SCORE	TOTAL COST £'000	PHASING OF EXPENDITURE £'000			LATER YEARS
			2009/10	2010/11	2011/12	
Langholm Primary	480	£5,500	£17	£1,483	£4,000	-
Beattock Primary	472	£2,052	£20	£500	£1,532	-
Mouswald Primary	472	£1,659M	£20	£200	£1,439	-
St Mungo's Primary	472	£1,439M	£5	£200	£1,234	
Dumfries Ice Bowl	428	£2,500	£10	£1,580	£910	-
Dumfries Town Centre Regeneration	368	£16,910	£363	£1,526	£3,383	£11,638
Stranraer Flood Prevention	318	£1,325	£110	£580	£580	£55
Whitesands Flood Management	316	£250	£125	£125		-
Recycling Centres Phase 1 (new and upgraded)	218	£2,690	£240	£400	£600	£1,450
Social Work Delivery Centres		£9,600	£600	£2,000	£3,000	£4,000
<b>Total</b>		<b>£43,925</b>	<b>£1,510</b>	<b>£8,594</b>	<b>£16,678</b>	<b>£17,143</b>

TABLE A

11.3 Taking account of the comments from the Service Director Schools at para 10.1, and that Education Committee will be asked to review their investment priorities, it is recommended that both Mouswald and St Mungo's projects are not considered for funding at this stage.

11.4 Members' attention is again drawn to the report presented at **Appendix 4** and the conclusions and recommendations contained therein. In summary, and in respect of the projects prioritised by Members at the April meeting, the following recommendations are made:-

- (1) that the Town Centre regeneration project should be funded from the Council's Regeneration Fund;
- (2) that the Kirkcudbright Art Gallery project in its current form is not included at this stage in the prioritised list of Development Block projects; and
- (3) that the Social Work Delivery Centres project is included in Members' list of priority projects.

11.5 If the recommendations in paras 11.2 and 11.3 are agreed Members are therefore requested to determine their investment priorities from the list of projects shown in the following Table B.

PROJECT	SCORE	TOTAL COST £'000	PHASING OF EXPENDITURE £'000			LATER YEARS
			2009/10	2010/11	2011/12	
Langholm Primary	480	£5,500	£17	£1,483	£4,000	-
Beattock Primary	472	£2,052	£20	£500	£1,532	-
Dumfries Ice Bowl	428	£2,500	£10	£1,580	£910	-
Stranraer Flood Prevention	318	£1,325	£110	£580	£580	£55
Whitesands Flood Management	316	£250	£125	£125	-	-
Recycling Centres Phase 1 (new and upgraded)	218	£2,690	£240	£400	£600	£1,450
Social Work Delivery Centres		£9,600	£600	£2,000	£3,000	£4,000
<b>Total</b>		<b>£23,917</b>	<b>£1,122</b>	<b>£6,668</b>	<b>£10,622</b>	<b>£5,505</b>

TABLE B

#### Financial Implications

11.6 To progress all the projects shown in Table B would require a capital investment of £23.917M. Members' attention is drawn to the revenue implications detailed in section 11 of **Appendix 4**. The information and advice contained therein should be carefully considered. The main conclusions are summarised in the following paragraphs.

11.7 Taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the Council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging.

11.8 Members are recommended to agree to only approve, at this stage, development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. For Members' assistance the first 5 projects listed in Table B total £11.627M and are as follows:-

<b>Project</b>	<b>£'000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	£250
<b>Total</b>	<b>£11,627</b>

11.9 Further consideration will be given to funding the remaining projects when the reports on the Roads and Regeneration investment funds are brought forward to this Committee and once further information has been made available regarding future levels of Government Grant Support.

Gordon Lawson Director of Support Services Community & Support Services  Date of Report: 8 May 2009  File Ref: F/6/1 GL/RK	Leslie Jardine Executive Director Community & Support Services Council Offices English Street DUMFRIES DG1 2DD
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#### **APPENDICES – 4**

## CAPITAL INVESTMENT STRATEGY – DEVELOPMENT BLOCK FUNDING 2009/10 TO 2011/12

### 1. Reason for Report

To continue the development of the Council's Capital Investment Strategy 2009/10 to 2011/12 and specifically to request Members to determine the allocation of Development Block funding.

### 2. Report Summary

2.1 The report identifies the sum available for Development Block projects over the 3 year financial planning period 2009/10 to 2011/12 based on the Council's approved Capital Investment Strategy and financial planning assumptions.

2.2 Members have already indicated a willingness to undertake additional prudential borrowing to increase capital investment levels and it is anticipated that such increased borrowing will be required over the planning period. High level information is provided on the revenue implications that would arise from any additional borrowing that Members may determine is required to support additional capital expenditure including the allocations to the Regeneration Fund for Dumfries & Galloway and the Strategic Roads Fund agreed in principle as part of the 2009/10 budget.

2.3 **Annex 2** of the report presents a list of Development Block projects that have been presented to the Capital Officers' Working Group for corporate scoring. Three schools projects have not been scored as they have not yet been considered by the Education Committee. Similarly, the Dumfries Ice Bowl refurbishment project is due to be considered by Resources Committee on 3 April 2009, however, the Capital Officers' Working Group have scored this project in anticipation that Resources Committee will support the project. The Social Work Delivery Centres project has not yet been scored as the outline business cases are not yet complete. However, Members have previously deemed this as a high priority project and they may wish to take this into consideration when allocating Development Block funding.

2.4 Members are also asked to consider the allocation of £90k that is available to support feasibility studies. There are 3 feasibility studies included in **Annex 2** which have been scored by the Capital Officers' Working Group.

2.5 While the corporate scoring mechanism is necessary to ensure alignment with Single Outcome Agreement and Corporate Plan objectives, Members are advised that they need to take a balanced view when considering their investment priorities and it is not necessarily the case that all investment should be directed to the highest scoring projects. Members are then asked to consider what Development Block projects they would wish to support.

### 3. Glossary of Terms

SOA - Single Outcome Agreement

### 4. Recommendations

Members are asked to:

4.1 note that in accordance with the Council's Capital Investment Strategy and previous decisions taken by this Committee, the sum of £11.588M is available to support Development Block projects over the 3 year planning period 2009/10 to 2011/12.

4.2 note that the capital investment strategy now includes allocations of £2 Million per annum for both the Regeneration Fund for Dumfries & Galloway and the Strategic Roads Fund, as agreed in principle as part of the 2009/10 budget, and that it is assumed that these allocations should not reduce the funding remaining available for other Development Block projects but will be funded, at least to some extent, through additional prudential borrowing.

4.3 review the list of projects identified in **Annex 2** and determine what projects should be supported from the available Development Block funding;

4.4 agree to receive a detailed report on the timescales for existing and newly agreed capital projects in order to provide a more realistic profile of anticipated capital spend and to inform projections of required prudential borrowing and associated loan charges.

4.5 determine what feasibility studies should be funded in financial year 2009/10;

4.6 agree the separate programmes allocation for 2009/10 as noted in section 13 and;

4.7 note that responsibility for delivering Development Block projects rests with the appropriate Service Committees and, in this respect, Service Committees should ensure there is appropriate project and financial management arrangements in place to ensure that the Service Committee has the appropriate performance information available to monitor progress in delivering individual projects.

### 5. Plan Links and Contribution

5.1 The content of this report is consistent with the Council's best value and continuous improvement and achieving the most efficient and effective use of financial resources.

5.2 Capital investment is crucially important to the Council as it provides the financial mechanism to support the achievement of the SOA and Corporate Plan objectives, as well as supporting the maintenance and development of core infrastructure.

### 6. Resources/Value for Money Assessment

The loan charges provision in the draft revenue budget assumes an annual borrowing requirement of £15M. If Members determine to increase or reduce the borrowing assumption then there will be an impact on future revenue budgets.

## **7. Risk Assessment**

7.1 The main risk is to ensure that capital expenditure is affordable, sustainable and prudent. Prudential indicators and monitoring reports are a means of ensuring that this risk is regularly reviewed and controlled.

7.2 There is an attraction in creating new assets through development projects but the Council has a duty to properly maintain its existing assets. There is a high risk that failure to invest in addressing maintenance issues will have a major impact on the life of assets leading to increased costs in the long term. In mitigation of this risk Members have approved a Capital Investment Strategy that allocates resources to both development and maintenance projects.

7.3 The absence of capital development bids for certain projects that would be highly ranked, such as the Social Work Services Delivery Centres, creates the risk that any allocation of funds to development projects would see scarce resources allocated to lower priority projects with the possibility that the most important projects could not be progressed. This risk is drawn to Members' attention in section 11 of the report.

7.4 To satisfy best value the Council must be able to evidence the decision-making process behind investment decisions. The Capital Investment Strategy, together with the bidding process and Asset Management Plans, provides the basis for decision-making.

## **8. Consultations**

The Corporate Management Team and Capital Officer's Working Group have been consulted and are in agreement with the terms of this report.

## **9. Background**

9.1 This report is concerned with taking forward the Council's Development Block Capital Investment Strategy 2009/10 to 2011/12.

9.2 The Development Block covers new developments and projects for which Members have determined a high priority and have the closest fit with the Council's SOA and Corporate Plan objectives. Generally, the Development Block is always over-subscribed with considerably more projects seeking funding than resources available. Bids for Development Block funding are assessed through a corporate scoring mechanism which was approved by Members. These projects are then presented to Members for consideration and decisions in terms of the allocation of available funding.

9.3 At the Corporate Policy meeting of 3 February 2009 Members considered a report on the development of the Council's Capital Investment Strategy and agreed a number of decisions to progress the Strategy, and in particular funding decisions to support the Council's Capital Maintenance Block for financial year 2009/10.

9.4 The undernoted decisions relate specifically to Development Block issues considered at the meeting of 3 February 2009 and form the basis of this report:-

### **Decision**

(1) **AGREED** that the council's Capital Investment Strategy be based on the three year planning period 2009/10 to 2011/12;

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(2) that priority be given to the School Estate, the Road Infrastructure, Town Centre Regeneration projects; the Stranraer Waterfront and Kirkcudbright Art Gallery to be progressed for funding consideration against the projected sum available over the three year planning period of £15.589m;

(3) that a further report would be brought forward to Members once the detail of the Scottish Government proposal to accelerate capital expenditure was known;”

9.5 At Corporate Policy Committee on 3 March 2009 Members considered a report on the Scottish Government’s proposals to support the acceleration of capital spend in Dumfries and Galloway by £4m. Having considered the report Members agreed the following:-

**“Decision**

**AGREED**

(1) that details of the Roads Structural Maintenance works being brought forward in the current financial year should be submitted to the Scottish Government as part of accepting the revised Capital Grant offer for 2008/09;

(2) the following funding allocations for 2009/10 based on projects/initiatives which Members had identified as being of a high priority:-

<b>Strategic Road fund</b>	<b>£ 2 Million</b>
<b>Schools Improvement Programme</b>	<b>£ 2 Million”</b>

9.6 Under the Council’s approved Capital Investment Strategy the sum available for Development Block projects is summarised below, with the detail shown in **Annex 1.**

<b><u>Development Block</u></b>	<b><u>£’000</u></b>
<b><u>Funding</u></b>	
2009/10	2,946
2010/11	114
2011/12	8,528*
<b>Total</b>	<b><u>11.588M</u></b>

*\* the figure for financial year 2011/12 assumes the continuation of capital grant support at current levels beyond the current finance settlement period.*

9.7 Because of the nature of Development Block projects it is considered appropriate to treat the above figure of £11.588 M as a total available for allocation over the upcoming 3 years rather than attempting to base allocations on the amounts available for specific years.

9.8 As part of the 2009/10 budget proposal agreed by Members at Full Council on 12 February 2009, Members agreed in principle to create over 10 years a £20 Million Regeneration Fund for Dumfries & Galloway and a £20 Million Strategic Roads Fund

subject to detailed plans to be brought forward. These detailed plans are currently being progressed by Planning & Environment.

9.9 For capital investment planning purposes it is assumed that each of these funds will require allocations of £2 Million per annum over the planning period. However, at this stage it is assumed that these allocations should not reduce the funding remaining available for other Development Block projects but will be funded, at least to some extent, through additional prudential borrowing. The need for such additional borrowing, and the resultant impact on loan charges, is covered in the following section of this report.

9.10 It is anticipated that those projects reflected at **Annex 2** to this report that relate to Regeneration Initiatives should be considered as part of the development of the £20 Million Regeneration Fund proposals and should therefore not receive further allocations through this report at this stage.

## 10. Development Block Funding

10.1 As identified in **Annex 1** the sum available for Development Block projects over the 3 year period is £11.588M. This sum is based on the Council's approved Capital Investment Strategy, including the £15M annual borrowing assumption used to calculate the Council's loan charges that are included in the revenue budget.

10.2 Members have already indicated that they would be prepared to consider increasing the Council's borrowing through the use of the prudential code to support additional capital funding.

10.3 At Full Council on 12 February 2009 Members were advised, should the existing borrowing allowance be fully utilised, a further measure that could be considered would be to increase the existing borrowing allowance to support further capital investment. This approach would lead to increased loan charges which would require to be accommodated through the identification of savings in the Council's revenue budget. For illustrative purposes at this stage, a rough idea of the increase in loan charges can be provided as follows:-

### Example 1:- £10 Million Investment in one year on a one-off basis:-

Over 20 years	£800,000 per annum
Over 30 years	£660,000 per annum

### Example 2:- £2 Million per annum Investment for 5 Consecutive Years:-

	Over 20 Years	Over 30 Years
Year 1	£160,000	£132,000
Year 2	£320,000	£264,000
Year 3	£480,000	£396,000
Year 4	£640,000	£528,000
From Year 5	£800,000	£660,000

10.4 As indicated above, the annual loan charges costs are affected by the length of the period over which the borrowing is written off and would also be affected by movements in interest rates. These figures should therefore be considered to be for illustrative purposes only. **It is also important to note that the increased loan charges would start to be incurred in the financial year following the year of**

**investment (ie additional investment in 2009/10 would impact on loan charges from financial year 2010/11).**

10.5 High level comparisons with other Councils indicate that this Council's level of indebtedness is low. This indicates that capital investment levels could be increased without incurring an imprudent level of debt or an unusually high ratio of Financing Costs to Net Revenue Stream. However, the key issue to be taken into consideration is the Council's ability to accommodate increased loan charges within the existing revenue budget. With the lowest council tax on mainland Scotland, accommodating increase costs within the revenue budget would represent a significant challenge for this Council.

10.6 As indicated at para 9.9 above, at this stage it is assumed that allocations of £2 Million per annum to each of the Strategic Roads Fund and the Regeneration Fund for Dumfries & Galloway over each of the next 10 years will be funded to some extent through additional prudential borrowing. If funded wholly from borrowing, it is projected that the impact would be to increase loan charges by in the region of an accumulating £300k per annum and by £3 Million per annum by the end of the 10 years. Given the pressures currently facing the revenue account, and the likelihood of very tight grant settlements over the upcoming period, it is considered unlikely that this would be affordable.

10.7 However, Members will be aware that there has been a significant level of slippage against the Council's agreed capital programmes over a long period of years. There remains a concern that the existing approved programme will encounter similar difficulties in the upcoming period. It is therefore essential that a thorough review and realistic profiling of the timing of spend against the Council's approved capital programme is undertaken by the Capital Officers Working Group in order to provide Members with a realistic indication of the level of prudential borrowing that would be required to fund new capital allocations and the resultant impact on loan charges budgets.

## **11. Development Block Projects**

11.1 As previously indicated the Capital Officers' Working Group assess, score and rank bids for Development Block funding by applying the Council's approved scoring system for capital projects.

11.2 At the February meeting of this Committee Members were presented with a list of Development Block projects which clearly demonstrated that there are more demands for funding than there are available resources. At that meeting Members were asked for and subsequently provided direction and guidance on the priority areas for Development Block funding. Para 9.4(2) above restates the decision taken by Members in identifying the priority areas for Development Block funding.

11.3 Since that meeting the Capital Officers' Working Group has met and considered the remaining outstanding Development Block projects that had been progressed to the point where all the appropriate information was available to facilitate corporate scoring.

11.4 **Annex 2** provides a list of all the Development Block projects, together with a brief description of the project, estimated capital cost and phasing and the corporate score attached to the project.

11.5 Again, Members will note that the list of projects clearly exceeds the available funding.

11.6 Examination of **Annex 2** shows that the highest priority projects relate to schools but it is fully appreciated that Members will wish to take a balanced view in determining funding allocations. The corporate scoring mechanism does provide a clear indication of the projects that have the closest fit to the Council's strategic objectives but this does not necessarily mean that all Development Block funding should be allocated to the highest scoring projects. The Council need to take a balanced view of the needs of all services and the maintenance of core infrastructure.

11.7 It should also be noted that the outline business cases for the Social Work Delivery Centres project are not yet complete and therefore the Capital Officers' Working Group are not in a position to score this project. Members may wish to take this into account when considering the allocation of Development Block funding and/or determining the requirement for any additional borrowing.

11.8 Members are asked to review the list of projects identified in **Annex 2** and determine what projects should be supported from the available Development Block funding. While consideration could be given to approving allocations in excess of the available funding, it is important to recognise the analysis provided at section 10 above regarding the potential borrowing implications of the Regeneration Fund for Dumfries & Galloway and the Strategic Roads Fund which were agreed in principle as part of the 2009/10 budget. This issue will be further assessed following the thorough review and realistic profiling of the timing of spend against the Council's approved capital programme to be undertaken by the Capital Officers Working Group.

11.9 While Corporate Policy Committee approves the funding of Development Block projects, responsibility for delivery rests with the appropriate Service Committee. In this respect Corporate Policy Committee may wish to ensure that there is an appropriate performance framework attached to the delivery of individual projects. In order to ensure delivery of projects within approved timescales, appropriate management arrangements must be in place. This should include both project and financial management, attaching realistic expenditure profiles and ensuring key milestones are identified to facilitate monitoring progress.

## **12. Feasibility Studies**

A sum of £90k is available to support the feasibility studies in financial year 2009/10. **Annex 2** lists the 3 feasibility studies that have been presented to the Capital Officers' Working Group for corporate scoring. Members are asked to determine what feasibility studies should be funded in financial year 2009/10

## **13. Separate Capital Programmes**

At the February meeting of this Committee Members were advised that, for financial planning purposes, it was assumed that the funding allocated to the separate programmes block was committed funding. Members are, however, asked to agree the 2009/10 funding as undernoted to ensure that these projects continue as planned:-

Regional Transport Partnership	£1,432k
Public Transport Fund and Integration Transport Fund	£470k
Contaminated Land	£676k
Police	£681k
Strategic Waste Fund	£422k
<b>Total</b>	<b><u>£3,681k</u></b>

Gordon Lawson Service Director Support Services Community & Support Services  Date of Report: 3 April 2009  File Ref: F/6/1 GL/RK	Leslie Jardine Executive Director Community & Support Services Council Offices English Street DUMFRIES DG1 2DD
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**APPENDICES – 2**

## Summary of Funding Available

	2009/10	2010/11	2011/12	2012/13	2013/14
Borrowing (Note 1)	15,414	15,000	15,000	15,000	15,000
Capital Grant (Note 2)	15,424	8,763	11,832	11,832	11,832
Capital Fund (Note 3)	1,000				
<b>Total Available</b>	<b>31,838</b>	<b>23,763</b>	<b>26,832</b>	<b>26,832</b>	<b>26,832</b>
Commitments (including maintenance)	24,892	23,649	18,304		
Strategic Roads Fund	2,000				
Schools Improvement Programme	2,000				
<b>Available for Allocation</b>	<b>2,946</b>	<b>114</b>	<b>8,528</b>	<b>26,832</b>	<b>26,832</b>

<b>Capital Grant</b>					
Basic	11,451	11,832	11,832	11,832	11,832
AHIP*		828			
Capital Acceleration	3,728	-4,142			
Zero Waste & SNH Rangers (new)	245	245			
	<b>15,424</b>	<b>8,763</b>	<b>11,832</b>	<b>11,832</b>	<b>11,832</b>

\* AHIP (Affordable Housing Investment Programme) increase of £828k in 2010/11 relates to the return of the amount foregone in 2008/09.

Note 1 - The Council's revenue budget for loan charges currently assumes borrowing to support capital expenditure of £15 Million per annum. The amount for 2009/10 has been enhanced by £414k borrowing allowance 'freed up' through the application of accelerated capital grant in 2008/09.

Note 2 - Capital Grant figures for 2009/10 and 2010/11 are as announced by the Scottish Government and now reflect the capital acceleration proposals. Figures shown for 2010/11 may be subject to further change. Awards for 2011/12 onwards are for indicative purposes only and will be revised.

Note 3 - It is estimated that approximately £1 Million can be made available from the Capital Fund to support the Capital Investment Strategy.

**Additional Prudential Borrowing could be undertaken to enhance the level of capital funding available shown above provided that the additional loan charges are accommodated within the revenue budget.**

Development Block Bids - FULL PROJECT										Phasing of Expenditure					Comments
Dept	Project Name	Description of Project	Committee	Committee Approval Date	Date Scored by COWG	COWG Weighted Score	Estimated Cost	Y1	Y2	Y3	2012/13	Later Years			
1	ESW&CS	Langholm Primary	Education	25/03/2008	18/03/2009	480	£5.5M	£16.5K	£1483.5K	£4000K					
=2	ESW&CS	Beattock Primary	Education	30/09/2008	18/03/2009	472	£2.052M	£20K	£500K	£1532K					
=2	ESW&CS	Mouswald Primary	Education	30/09/2008	18/03/2009	472	£1.659M	£20K	£200K	£1439K			*** There is a requirement to acquire land.		
=2	ESW&CS	St Mungo's Primary	Education	30/09/2008	18/03/2009	472	£1.439M	£5K	£200K	£1234K			*** There is a requirement to acquire land.		
5	C&SS	Dumfries Ice Bowl Refurbishment	Corporate Policy		18/03/2009	428							<p>OPTION 1 FULL PROJECT (PREFERRED) £2.5M</p> <p>OPTION 2 REPAIR ONLY £1.6M</p> <p>To carry out the refurbishment of the building and services to provide additional ice areas to take cognisance of the increase in ice activities and a relocation of the indoor bowls group. Upgrade of services i.e. the change of refrigerant to comply with current regulations. Additionally, consider the alteration and extension of the existing Bowls Hall into a Curling Rink subject to a consultation exercise.</p> <p>OPTION 1 (FULL PROJECT) PREFERRED</p> <p>This was due to be considered by Resources Committee on 17th March 2009, but was postponed until Corporate Policy Committee on 3rd April 2009. The Bid has been scored by the COWG on 18/03/09 under the proviso that it must gain approval at this committee.</p>		
6	PH&ES	Dumfries Town Centre Regeneration Environmental Improvement Programme	PH&ES	11/11/2007	27/08/2008	368	£16.8M	£80K	£660K	£2.53M	£2.88M	£10.662M	Full Project (Development). <b>Public Realm Improvement Prog</b> - Est cost of £12.7M between 2007 and 2017. <b>Improvements to Dock Park</b> - Est cost of £2.3M of which £0.9M was targeted as being contributed by external funders or grants. <b>Nith Corridor</b> - Est cost of £120K. <b>Access, Circulation &amp; Parking</b> - see bid at No 5.		
7	PH&ES	Dumfries Town Centre Regeneration Access & Parking potential	PH&ES	11/11/2007	27/08/2008	352	£2.6M			£650K	£650K	£1.3M	Part of above		
8	PH&ES	Flood Risk Management Programme	PH&ES	11/11/2008	10/12/2008	330	£450K	£150K	£150K	£150K					
9	PH&ES	Accident, Investigation & Prevention Programme 2008-2011	PH&ES	12/07/2005	27/08/2008	320	£60K		£60K				2nd Year Bid from a 3Yr Project at £60K per year. (£120K remaining)		
10	PH&ES	Stranraer Flood Prevention Scheme	PH&ES	11/09/2007	07/11/2007	318	£1.45M	£50K	£50K	£525K	£530K	£50K	Previous Years £245K. Full Project (Development)		
11	PH&ES	Safer Routes to Schools	PH&ES	08/04/2008	27/08/2008	316	£990K	£330K	£330K	£330K					
12	PH&ES	Whitesands Flood Management Scheme	PH&ES	11/09/2007	07/11/2007	316	£250K		£125K	£125K			Full Project (Design)		
13	CS	Burial Ground Extensions	Combined Services Sub Committee	18/10/2007	27/08/2008	302	£1.57M	£361K	£828K	£382K			Full Project (Maintenance)		

Development Block Bids - FULL PROJECT										Phasing of Expenditure					Comments
Dept	Project Name	Description of Project	Committee	Committee Approval Date	Date Scored by COWG	COWG Weighted Score	Estimated Cost	Y1	Y2	Y3	2012/13	Later Years			
14	C&SS	Kirkcudbright Art Gallery	Corporate Policy	09/01/2007	10/12/2008	286	£1M***			£1M			*** £1M contribution and £1M Collateral form site value. Total Project worth £10M. External Funding of £8M sought. Funding decision by Heritage Lottery Fund will have major implications for the project.		
15	F&RS	Provision of Multi Capability Vehicles	Police, Fire & Rescue Service	20/05/2008	27/08/2008	242	£350K	£350K					Full Project (Development)		
16	PH&ES	Recycling Centres Phase 1 (New & Upgrades)	PH&ES	12/07/2005	07/11/2007	218	£2.69M	£90K	£500K	£420K	£420K	£1.26M	Full Project (Development)		
17	F&RS	Incident Command Simulation Unit	Police, Fire & Rescue Service	20/05/2008	27/08/2008	168	£84.6K	£84.6K					Full Project (Development)		
18	PH&ES	Radial Routes, Dumfries	PH&ES	12/07/2005	27/08/2008	156	£500K	£250K	£250K				Full Project (Development)		
19	PH&ES	Gretna Landmark	PH&ES	10/03/2009	18/03/2009	150	£1.4M***			£1.4M			*** It would be the intention to apply for 40% funding through the LUPS and ERDF programmes and apply for funding from the NDA.		
	ESW&CS	Dalbeattie Primary	Education			NOT SCORED on 18/03/2009	£5.5M	£16.5K	£1483.5K	£4000K			This project has not been to the Service committee and therefore cannot be scored by COWG.		
	ESW&CS	Dumfries Schools Review	Education			NOT SCORED on 18/03/2009	£120M	£0.5M	£2.5M	£6.5M	£26.5M	£84M	Not scored as awaiting the outcome of ongoing Feasibility Study		
	C&SS	Dumfries Cultural Centre	E&CS	18/05/2004		NOT SCORED on 18/03/2009	£20M		£0.5M	£2.5M	£6.5M	£10.5M	Not scored as could be part of a Feasibility Study.		

Feasibility Study Bids														
	Dept	Project Name	Description of Project	Committee	Committee Approval Date	Date Scored by COWG	COWG Weighted Score	Estimated Cost	Y1	Y2	Y3	2012/13	Later Years	Comments
1	PH&ES	Gretna Masterplan	Feasibility Study - the programme will enable the implementation of the regeneration options identified in the Gretna Masterplan study. Capital investment support from Dumfries and Galloway Council will enable leverage for the delivery of the project to be gained from additional sources.	PH&ES	10/03/2009	18/03/2009	370	£50K	£50K					
=2	PH&ES	Langholm Flood Risk Assess	Feasibility Study - The flood risk assessment will identify and assess options for a scheme to alleviate flood risk on the River Esk and Ewes Water at Langholm.	PH&ES	11/09/2007	10/12/2008	306	£45K	£45K					
=2	PH&ES	Newton Stewart Flood Risk Assess	Feasibility Study - The flood risk assessment will identify and assess options for a scheme to alleviate flood risk on the River Cree in Newton Stewart and Minnigaff.	PH&ES	11/09/2007	10/12/2008	306	£45K	£45K					

**DRAFT EXTRACT OF MINUTE OF CORPORATE POLICY COMMITTEE OF  
7 APRIL 2009**

**4. CAPITAL INVESTMENT STRATEGY - DEVELOPMENT BLOCK  
2009/10 TO 2011/12 – Report by Service Director of Support Services**

**Decision**

**NOTED**

4.1 that in accordance with the Council's Capital Investment Strategy and previous decisions taken by this Committee, the sum of £11.588M was available to support Development Block projects over the 3 year planning period 2009/10 to 2011/12 (£2.946M in 2009/10; £114,000 in 2010/11 and £8.528M in 2011/12);

4.2 that the capital investment strategy now included allocations of £2 Million per annum for both the Regeneration Fund for Dumfries & Galloway and the Strategic Roads Fund, as agreed in principle as part of the 2009/10 budget, and that it was assumed that these allocations should not reduce the funding remaining available for other Development Block projects over the three year planning period but would be funded, at least to some extent, through additional prudential borrowing, which would be the subject of a report to the May/June cycle of meetings;

4.3 that responsibility for delivering Development Block projects rested with the appropriate Service Committees and, in this respect, Service Committees must ensure there was appropriate project and financial management arrangements in place and that more detailed scrutiny had been carried out in order to ensure that Service Committees had the appropriate performance framework available to monitor progress in delivering individual projects;

4.4 that the Resources Committee, at its meeting on 3 April 2008, had agreed to progress Phase 1 of the refurbishment works to the Ice Bowl at a cost of £1.6 Million (which included provision of £10k within the current financial year) and that a further report on the outcome of the consultation to progress the full project at a cost of £2.5 Million would be presented to the Resources Committee in June 2009;

4.5 that more detailed and robust projections and realistic phasing of expenditure for capital projects was required by Services in order to reduce slippage in future capital programmes;

4.6 that informal notice had been received that the Council's Heritage Lottery Fund bid had been unsuccessful and that the future of the Kirkcudbright Art Gallery project was being considered by the project board; therefore project had not included in list of projects being considered for support; and

**AGREED**

4.7 to fund the feasibility Study Bid for the Gretna Masterplan at a cost of £50k from the budget of £90k allocated in 2009/10;

4.8 having **NOTED** that the list of projects identified in **Appendix 1** far exceeded the budget of £11.588M for 2009/10 to 2011/12, to receive a report at the next meeting of the Committee on the undernoted projects to be supported from the available Development Block funding together with provision of a more detailed profile of each project, the projected level of prudential borrowing required and associated loan charges and an indication of whether the project might be funded from the Regeneration Fund:-

1 (Langholm Primary)  
2 (Beattock Primary)  
5 (Dumfries Ice Bowl Refurbishment)  
10 (Stranraer Flood Prevention Scheme)  
16 (Recycling Centres Phase 1 New and Upgrades)

6 (Dumfries Town Centre Regeneration Environmental Improvement Programme)  
12 (Whitesands Flood Management Scheme); and

4.9 to receive a report to a future meeting regarding the funding of the provision of Social Work Delivery Centres once these were fully costed and a business case provided.

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**DRAFT EXTRACT OF MINUTE OF CORPORATE POLICY COMMITTEE OF  
5 MAY 2009****1. MINUTE OF MEETING OF CORPORATE POLICY COMMITTEE OF 7  
APRIL 2009 (subject to the inclusion of Gail Macgregor in the list of Members  
having been present at the meeting)****VOTE**

1.1 **MOTION** by **SEAN W MARSHALL** seconded by **RICHARD J BRODIE** that the minute should be amended at paragraph 4.8 to read, "having noted that the list of projects identified in Appendix 1 far exceeded the budget of £11.588m for 2009/10 to 2011/12, to receive a report at the next meeting of the Committee on the under noted projects to be supported from the available Development Block funding together with provision of a more detailed profile of each project, the projected level of prudential borrowing required and associated loan charges and an indication of whether the project might be funded from the Regeneration Fund:-

1( Langholm Primary)

=2 ( Beattock Primary, Mouswald Primary and St Mungo's Primary)

5 ( Dumfries Ice Bowl Refurbishment)

10 ( Stranraer Flood Prevention Scheme)

16 ( Recycling Centres Phase 1 New and Upgrades)

6( Dumfries Town Centre Regeneration Environmental Improvement Programme)

12 (Whitesands Flood Management Scheme)"

1.2 **AMENDMENT** by **ALISTAIR GEDDES** seconded by **JOHN A CHARTERIS** that the minute be approved

**PROCEDURE-** Members were advised that, as the vote related to the minute of the meeting of 7 April only those Members who were present could vote on whether or not it was a correct record of the decision taken at that meeting.

1.3 On a vote being taken by roll call, Members voted as follows:-

**Motion** - 7 votes, being:-

Richard J Brodie, Jeff Leaver, Gail MacGregor, Denis R Male, Sean W Marshall, Ronnie Nicholson and Ronnie Ogilvie

**Amendment** - 7 votes, being:-

Patsy Gilroy, John A Charteris, Jim Dempster, Robert J Higgins, Graham Nicol and Alistair Witts

**Abstention**- 1 being:-

Ivor A Hyslop

**PROCEDURE** – There being an equality of votes the Chairman was given an opportunity to use his casting vote and by virtue of the fact that he had abstained he declined to do so.

Members were therefore advised that since the committee could not agree on the decision taken at Item 4.8 the report on Item 4 - Capital Investment Strategy-Development Block 2009/10 to 2011/12 would require to be reconsidered. In addition since the report at Item 7 on the Agenda calling the meeting under the heading “Capital Investment Strategy 2008/10 to 2011/12 Development Block Projects” had been prepared on the basis of the minuted decision at item 4 in the minute of 7 April 2009 it would be withdrawn from the agenda and considered at the same time as the original report.

### **VOTE**

1.4 **MOTION** by **ALISTAIR GEDDES** seconded by **ROBERT J HIGGINS** that the consideration of the original report on the Capital Investment Strategy - Development Block 2009/10 to 2011/12 submitted to the Corporate Policy Committee on 7 April 2009 and the report on the same subject deferred from this meeting should be referred to the Full Council for consideration

1.5 **AMENDMENT** by **SEAN MARSHALL** seconded by **JIM DEMPSTER** that the reports on the Capital Investment Strategy - Development Block 2009/10 to 2011/12 submitted to the Corporate Policy Committee on 7 April 2009 and the report on the same subject deferred from this meeting should be deferred to a special meeting of the Corporate Policy Committee to be held at the conclusion of the meeting of the Council to be held on 14 May 2009.

1.6 On a vote being taken by roll call, Members voted as follows:-

**Motion** - 11 votes, being:-

Ivor A Hyslop, Patsy Gilroy, Richard J Brodie, Rod Davidson, Peter Duncan, Alistair Geddes, Robert J Higgins, Jane Maitland, Denis R Male, Graham Nicol and Alistair Witts.

**Amendment** - 8 votes, being:-

John A Charteris, Jim Dempster, Jeff Leaver, Gail MacGregor, Sean W Marshall, Ronnie Nicholson, Ronnie Ogilvie and Colin Smyth

### **Decision**

1.7 **APPROVED** the minute of the meeting with the amendment to incorporate Gail MacGregor as being present **APPRECIATING** that the decision at Item 4 Capital Investment Strategy-Development Block 2009/10 to 2011/12 at the meeting on 7 April 2009 had fallen as no agreement could be reached in respect of the decision taken ; and

1.8 **AGREED** that the Corporate Policy Committee not exercise its delegations to consider the Capital Investment Strategy-Development Block 2009/10 to 2011/12 and to remit to the Full Council consideration of the report and an update report at its meeting on 14 May 2009.

## CAPITAL INVESTMENT STRATEGY 2009/10 TO 2011/12 DEVELOPMENT BLOCK PROJECTS

### 1. Reason for Report

To continue the development of the Council's Capital Investment strategy 2009/10 to 2011/12 and to request Members to agree the allocation of development block funding.

### 2. Report Summary

2.1 The report continues the development of the Council's Capital Investment strategy and considers the funding of the development block projects that were prioritised by Members at the April meeting of the Committee. Since that meeting Officers have reviewed and, where appropriate, updated project estimated costs and expenditure phasing.

2.2 Table 2 of the report shows that the list of development block projects totals £32.019M against available 'budgeted' funding of £11.588M. It is suggested that the Town Centre regeneration project is supported from the Council's regeneration fund and that following the unsuccessful HLF bid no provision is made at this time for Kirkcudbright Art Gallery project. Following Members' deliberations at previous committees a provision has been included for the SWSDC projects. These adjustments reduce the development block funding requirement to £23.917M as shown in Table 3.

2.3 The report goes on to discuss the financial implications that would accrue if Council incurred additional borrowing to, not only fund the listed development block projects, but also the Regeneration and Roads Funds. The report concludes that taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging.

2.4 Members are then asked to consider a prudent approach and only approve at this stage development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. For Members assistance the first 5 projects listed in Table 3 Total £11.627M as follows:-

Project	£'000
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	£250
<b>Total</b>	<b><u>£11,627</u></b>

### 3. Glossary of Terms

SWSDC	-	Social Work Services Delivery Centre
SOA	-	Single Outcome Agreement
HLF	-	Heritage Lottery Fund
FES	-	Financial Efficiency Strategy

### 4. Recommendation

Members are asked to:

- 4.1 note the revised costs and financial profile shown in Table 2;
- 4.2 agree that the Town Centre Regeneration project (£16.812M) should be funded from the Council's Regeneration Fund;
- 4.3 agree that the Kirkcudbright Art Gallery project in its current form is not included at this stage in the prioritised list of development block projects;
- 4.4 agree that the Social Work Delivery Centres project is included in Members' list of priority projects;
- 4.5 note the outline financial implications that could arise from incurring additional borrowing to support development block projects and the Roads and Regeneration Funds as detailed in Section 11;
- 4.6 note and consider the conclusion that, taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the Council's own Financial Efficiency Strategy, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging;
- 4.7 agree to only approve, at this stage, development block projects up to the value of around £11.588M, being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. In this respect, it is further suggested that support is given to the top five priority projects, as listed in Table 3, as follows:-

<b>Project</b>	<b>£'000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	<u>£250</u>
<b>Total</b>	<b><u>£11,627</u></b>

- 4.8 agree that further consideration will be given to funding the remaining projects in Table 3 when the reports on the Roads and Regeneration Investment Funds are brought forward to this Committee; and

4.9 agree that, before the summer recess, officers bring forward reports to the appropriate Service Committees reviewing progress on all development block projects including considering the cost of the project, phasing of expenditure and reviewing the timescale for completion of the project.

## **5. Plan Links and Contribution**

5.1 The content of this report is consistent with the Council's best value and continuous improvement and achieving the most efficient and effective use of financial resources.

5.2 Capital investment is crucially important to the Council as it provides the financial mechanism to support the achievement of the SOA and Corporate Plan objectives.

## **6. Resources/Value for Money Assessment**

The loan charges provision in the draft revenue budget assumes an annual borrowing requirement of £15M. If Members determine to increase or reduce the borrowing assumption then there will be an impact on future revenue budgets. Section 11 of the report identifies the revenue financial implications of incurring additional borrowing to support further capital investment.

## **7. Risk Assessment**

7.1 The main risk is to ensure that capital expenditure is affordable, sustainable and prudent. Prudential indicators and monitoring reports are a means of ensuring that this risk is regularly reviewed and controlled.

7.2 Members have recently indicated a willingness to undertake additional prudential borrowing to increase capital investment levels. Given the current economic climate, and uncertainty regarding the level of future Government grant support for Councils, there are obvious risks associated with committing to increased levels of borrowing which will result in associated loan charges over a number of years. To help address this risk this report recommends a prudent approach of restricting new approvals to the level of funding currently available within the Council's existing Capital Investment Strategy at this stage. Opportunities to support further projects will be considered following the development of plans for the Roads and Regeneration Investment Funds and once further information has been made available regarding future levels of Government Grant support.

7.3 To satisfy best value the Council must be able to evidence the decision-making process behind investment decisions. The Capital Investment Strategy, together with the bidding process and Asset Management Plans, provides the basis for decision-making.

## **8. Consultations**

The Corporate Management Team, Operations Manager Accountancy and Capital Officers' Working Group have been consulted and are in agreement with the content of this report.

## 9. Background

9.1 At Corporate Policy Committee on 7 April 2009 Members considered a report on the Capital Investment Strategy and agreed the following:-

### “Decision

#### “AGREED

(1) to fund the feasibility Study Bid for the Gretna Masterplan at a cost of £50k from the budget of £90k allocated in 2009/10;

(2) having **NOTED** that the list of projects identified in Appendix 1 far exceeded the budget of £11.588M for 2009/10 to 2011/12, to receive a report at the next meeting of the Committee on the undernoted projects to be supported from the available Development Block funding together with provision of a more detailed profile of each project, the projected level of prudential borrowing required and associated loan charges and an indication of whether the project might be funded from the Regeneration Fund:-

1 (Langholm Primary)

2 (Beattock Primary)

5 (Dumfries Ice Bowl Refurbishment)

10 (Stranraer Flood Prevention Scheme)

16 (Recycling Centres Phase 1 New and Upgrades)

6 (Dumfries Town Centre Regeneration Environmental Improvement Programme)

12 (Whitesands Flood Management Scheme) and

(3) to receive a report to a future meeting regarding the funding of the provision of Social Work Delivery Centres once these were fully costed and a business case provided.”

9.2 A summary of the costs and phasing of the projects listed in the Minute above are undernoted:-

PROJECT	SCORE	TOTAL COST	PHASING OF EXPENDITURE £'000			LATER YEARS
			2009/10	2010/11	2011/12	
Langholm Primary	480	£5,500	£17	£1,483	£4,000	-
Beattock Primary	472	£2,052	£20	£500	£1,532	-
Dumfries Ice Bowl	428	£2,510	£10	£900	£1,600	-
Stranraer Flood Prevention	318	£1,205	£50	£50	£525	£580
Dumfries Town Centre Regeneration	368	£16,812	£80	£660	£2,530	£13,542
Whitesands Flood Management	316	£250	-	£125	£125	-
Recycling Centres Phase 1 (new and upgraded)	218	£2,690	£90	£500	£420	£1,680
Kirkcudbright Art Gallery	286	£1,000			£1,000	
Total		£32,019	£267	£4,218	£11,732	£15,802

TABLE 1

9.3 It should be noted for financial planning purposes Option 1 of the Dumfries Ice Bowl project has been included in the Table. It is acknowledged that Members are awaiting further information which will enable them to finalise their decision in this respect. Regarding the Kirkcudbright Art Gallery project Members were advised that the Heritage Lottery Fund (HLF) bid had been unsuccessful and that this project would be further considered by the Kirkcudbright Art Gallery Project Board to determine what further action, if any, should be taken to progress this project. The Project Board will be considering options for taking forward the project at its next meeting on 18 May 2009. It is intended that the outcome of that consideration will be reported to a future meeting of the Corporate Policy Committee.

## 10. Key Issues

### Development Block Projects

10.1 In response to the decisions taken by the Committee the responsible officers for each of the aforementioned projects were requested to review the estimated cost and financial profile for each project. The undernoted Table reflects the updated information:-

PROJECT	SCORE	TOTAL COST	PHASING OF EXPENDITURE £'000			LATER YEARS
			2009/10	2010/11	2011/12	
Langholm Primary	480	£5,500	£17	£1,483	£4,000	-
Beattock Primary	472	£2,052	£20	£500	£1,532	-
Dumfries Ice Bowl	428	£2,500	£10	£1,580	£910	-
Stranraer Flood Prevention	318	£1,325	£110	£580	£580	£55
Dumfries Town Centre Regeneration	368	£16,910	£363	£1,526	£3,383	£11,638
Whitesands Flood Management	316	£250	£125	£125		-
Recycling Centres Phase 1 (new and upgraded)	218	£2,690	£240	£400	£600	£1,450
Total						
		£31,227	£885	£6,194	£11,005	£13,143

TABLE 2

10.2 Omitted from the Table are Kirkcudbright Art Gallery and the Social Work Delivery Centres projects.

10.3 In respect of Kirkcudbright Art Gallery, as previously indicated, Members were advised that the HLF bid had been unsuccessful. A copy of the rejection letter is attached at **Annex 1**. Taking account of the content of the letter, and as the project was significantly dependent on HLF funding, it is suggested that no provision is made for this project at this time.

10.4 In respect of Social Work Delivery Centres, Members have already determined this as a high priority project at an original estimated cost of £7.9M. The project is being progressed by the Social Work Services Committee and it is expected that the Business Case, including more detailed costings, will be available within the next 2 months. To ensure, however, that the Council's capital investment strategy accurately reflects Members' priorities and that the financial implications are fully considered it is necessary to factor into the investment strategy an updated estimate of the cost and phasing of the SWSDCs project. Discussions have taken place with the SWSDCs Project Manager and the Service Director Social Work Services and it is now estimated that the project could cost, at current day prices, £9.6M excluding land. The estimated financial profile is as follows:-

- 2009/10 - £600K
- 2010/11 - £2M
- 2011/12 - £3M
- 2012/13 - £4M

As indicated earlier the business case is currently being worked up and will be reported to the June meeting of the Social Work Services Committee. In the meantime the above noted figures will be included in the capital investment financial projections.

10.5 The list of projects currently include Dumfries Town Centre Regeneration. At the April Committee, and as reflected in the Minute, Members considered whether this project could be funded from the £20M Regeneration Fund which is included in the Council's budget strategy approved at Full Council on 12 February 2009. Discussion has taken place with the Corporate Director of Planning & Environment Services who is currently preparing a report for Members' consideration on the priority regeneration projects to be supported from the regeneration fund. Dumfries Town Centre Regeneration project is included within that list of projects and, therefore, does not require to be reflected under the Council's Development Block.

10.6 It is clearly for Members to determine what projects are supported and the following Table summarises the suggestions contained in the previous paragraphs:-

PROJECT	SCORE	TOTAL COST £'000	PHASING OF EXPENDITURE £'000			LATER YEARS
			2009/10	2010/11	2011/12	
Langholm Primary	480	£5,500	£17	£1,483	£4,000	-
Beattock Primary	472	£2,052	£20	£500	£1,532	-
Dumfries Ice Bowl	428	£2,500	£10	£1,580	£910	-
Stranraer Flood Prevention	318	£1,325	£110	£580	£580	£55
Whitesands Flood Management	316	£250	£125	£125		-
Recycling Centres Phase 1 (new and upgraded)	218	£2,690	£240	£400	£600	£1,450
Social Work Delivery Centres		£9,600	£600	£2,000	£3,000	£4,000
Total		£23,917	£1,122	£6,668	£10,622	£5,505

TABLE 3

This results in an estimated funding requirement of **£23.917M** and the following section of this report spells out the revenue implications of the additional borrowing that would be required to support the level of investment identified in Table 3.

## 11. Revenue Implications

11.1 There is considerable uncertainty regarding the future level of Government Grant to Local Authorities. The recent 2009 Budget Statement identifies a requirement for public sector efficiency savings of £5b in financial year 2010/11 rising to £9b by financial year 2013/14. While there is as yet no detail from the Chancellor on how the efficiencies will be achieved or what impact the requirement

will have on the Scottish Government budget most commentators agree that Local Authorities will be expected to contribute a proportionate amount towards achievement of the efficiency target.

11.2 The Council's current 3 year financial efficiency strategy requires sustainable efficiencies of £3.9M in each of the financial years 2010/11 and 2011/12. While this is a very challenging position any further savings required as a result of the recent budget announcement will place significant pressure on the Council's financial stability and our ability to continue to provide existing levels of Service delivery.

11.3 Any decision to increase the Council's borrowing and incur additional loan charges must be fully informed and take into account the current financial pressures facing the Council.

#### **Additional Development Block Investment**

11.4 As identified in previous reports to this Committee the sum available for Development Block projects over the 3 year planning period is £11.588M. This sum is based on the Council's approved Capital Investment Strategy, including the £15M annual borrowing assumption used to calculate the Council's loan charges that are included in the revenue budget. Further, Members are reminded that there is no indicative capital funding support from the Scottish Government beyond the current financial year. The £11.588M sum available is based on the assumption that support from the Scottish Government will continue at existing levels.

11.5 The development block capital investment strategy shown in Table 3 identifies a funding requirement of £23.917M of which £18.412M is phased over the current planning period and £5.505M carried forward as a commitment into future years.

11.6 To identify the loan charge implications of the investment strategy it is assumed, following the accounting concept of a 'going concern', that the Council will have a capital investment strategy beyond financial year 2011/12. It is also reasonable to assume that the level of investment will not vary significantly from that assumed within the current financial plans, specifically that the annual borrowing requirement will remain on or around £15M.

11.7 Taking account of the foregoing it is assumed that the £5.505M 'future years' implications of the proposed investment will be funded from within the anticipated future years level of capital funding and as such the loan charge implications will be included within base budget. The additional borrowing requirement arising from capital investment of £23.917M is as follows:

<b>Capital Investment Development Block 2009/10 to 2011/12</b>	<b>£'000</b>
Proposed Capital investment	£23,917
Less uncommitted funding	-£11,588
Less funded from 'future years' capital	-£5,505
<b>Additional Borrowing</b>	<b>£6,824</b>

TABLE 4

11.8 Annual loan charges costs are affected by the length of the period over which the borrowing is written off and would also be affected by movements in interest

rates. It is also important to note that the increased loan charges would start to be incurred in the financial year following the year of investment (ie additional investment in 2009/10 would impact on loan charges from financial year 2010/11).

11.9 The loan charge implications associated with additional borrowing of £6,824M is as follows:-

- 2010/11        £Nil
- 2011/12        £75K
- 2012/13        £519K onwards

11.10 As indicated in a previous report it is assumed that allocations of £2 Million per annum to each of the Strategic Roads Fund and the Regeneration Fund for Dumfries & Galloway over each of the next 10 years will be funded to some extent through additional prudential borrowing. If funded wholly from borrowing, it is projected that the impact would be to increase loan charges by in the region of an accumulating £300K per annum and by £3 Million per annum by the end of the 10 years.

11.11 However, the key issue to be taken into consideration is the Council's ability to accommodate increased loan charges within the existing revenue budget. With the lowest council tax on mainland Scotland, accommodating increased costs within the revenue budget would represent a significant challenge for this Council.

11.12 Members will be aware that there has been a significant level of slippage against the Council's agreed capital programmes over a long period of years. There remains a concern that the existing approved programme will encounter similar difficulties in the upcoming period. It is therefore essential that a thorough review and realistic profiling of the timing of spend against the Council's approved capital programme is undertaken by the Capital Officers Working Group in order to provide Members with a realistic indication of the level of prudential borrowing that would be required to fund new capital allocations and the resultant impact on loan charges budgets. It is therefore recommended that, before the summer recess, officers bring forward reports to the appropriate Service Committee reviewing progress on all development block projects including considering the cost of the project, phasing of expenditure and reviewing the timescale for completion of the project. This level of scrutiny will facilitate a more accurate estimate of the loan charge implications of the Council's overall capital investment programme.

11.13 Having stated the foregoing, the Council must take a realistic and pragmatic informed view of the revenue implications that could flow from additional capital investment. While some flexibility may become available through a thorough review and realistic profiling of the timing of spend against the Council's approved capital programme, Members need to be informed of the potential revenue impact of additional borrowing and the challenges that will create within the context of the current economic climate and potential reductions in funding through the requirement to achieve increased efficiency savings.

11.14 The following Table outlines the estimated borrowing costs associated with the level of investment identified earlier in this report.

Estimated cost of additional borrowing +	Development Block additional borrowing of £6.824M (see para 11.7) £'000	Regeneration and Roads Funds. Assume £4M spend per annum for 10 years £'000	Total £'000
2010/11	-	£300	£300
2011/12	£75	£600	£675
2012/13	£519	£900	£1,419
2013/14	£519	£1,200	£1,719
2014/15	£519	£1,500	£2,019
2015/16	£519	£1,800	£2,319
2016/17	£519	£2,100	£2,619
2017/18	£519	£2,400	£2,919
2018/19	£519	£2,700	£3,219
2019/20	£519	£3,000	£3,519

TABLE 5

11.15 The above Table gives Members **an indication** of the additional costs that may have to be funded from within existing resources. Members need to consider the Council's ability to incur additional borrowing costs. If additional prudential borrowing is drawn down to support the creation of the Regeneration and Road funds and to fund the balance of the proposed development block projects then the Council will have to identify revenue savings or generate additional revenue income of £300K in 2010/11 rising to £3.519M in 2019/20. Taking account of the current economic climate, the uncertainty in terms of future Government support to Local Authorities, the current freeze on Council Tax increases and the council's own FES, the ability of the Council to achieve further savings to support additional borrowing will be exceptionally challenging.

11.16 It is suggested that both Members and Officers need further time to fully explore and understand the financial and service implications of funding additional capital investment through increased borrowing.

11.17 The Corporate Director of Planning and Environment Services is currently preparing proposals for utilising the Roads and Regeneration investment funds. It is understood that these proposals will be presented to the June cycle of meetings. Once these proposals are known and the phasing of expenditure has been estimated more detailed consideration can be given to the likely financial implications of the Council's capital investment strategy. Similarly, more information may be available from the Scottish Government on the impact that the additional efficiency savings target announced by the Chancellor will have on local authorities.

11.18 As a result of the foregoing Members are asked to consider a prudent approach at this stage and only approve development block projects up to the value of around £11.588M being the level of uncommitted capital funding assumed within the Council's current Financial Efficiency Strategy. For Members' assistance the first 5 projects listed in Table 3 total £11.627M are as follows:-

<b>Project</b>	<b>£,000</b>
Langholm Primary	£5,500
Beattock Primary	£2,052
Dumfries Ice Bowl	£2,500
Stranraer Flood Prevention	£1,325
Whitesands Flood Management	£250
<b>Total</b>	<b>£11,627</b>

11.19 Further consideration will be given to funding the remaining projects when the reports on the Roads and Regeneration investment funds are brought forward to this committee and once further information has been made available regarding future levels of Government Grant Support.

Gordon Lawson Director of Support Services Community & Support Services  Date of Report: 29 April 2009  File Ref: F/6/1 GL/RK	Leslie Jardine Executive Director Community & Support Services Council Offices English Street DUMFRIES DG1 2DD
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#### **APPENDICES - 1**

Scotland  
28 Thistle Street  
Edinburgh EH2 1EN

Telephone  
0131 225 9450  
Facsimile  
0131 225 9454

Textphone  
020 7591 6255  
Website  
www.hlf.org.uk



7<sup>th</sup> April 2009

Your Ref:  
Our Ref: HG-08-14981

Alastair R Johnston  
Operations Manager Cultural Services  
Dumfries and Galloway Council Cultural Services  
Ewart Library  
Catherine Street  
Dumfries  
Dumfries and Galloway  
DG1 1JB



*Dear Mr Johnston,*

**Scotland's Artists' Town – the Kirkcudbright Gallery**

We have now completed our assessment of your application and it was presented for a decision by our Board of Trustees on 24<sup>th</sup> March.

Our Trustees have decided not to offer a first-round pass to your project. I know this will be disappointing for everyone who has been involved in developing it so far, and I have set out our reasons below.

Demand for our funds means that we cannot support every application that meets our criteria. Our Board had to take decisions on more projects than the available budget could cope with, and your project was not supported as it was a lower priority for our funding than other projects being considered on the day.

Overall the Board was not convinced that the project would deliver heritage and public benefits commensurate with the size of grant requested. The project therefore did not represent sufficient value for money to HLF. Trustees also considered that the need for a new art gallery in the proposed venue had not been sufficiently demonstrated. As we expect continued strong competition for our funds, we recommend that you do not reapply to us for this project.

I hope that this explanation is helpful. If you would like us to return any of the hard copy information sent in with your application please write to Isobel Gough, our Office Assistant, by 11<sup>th</sup> May 2009. We do not keep paper records for longer than one year from the date of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read "Caroline Clark".

Caroline Clark  
Casework Manager  
Direct Line: 0131 240 1575  
Email: carolinec@hlf.org.uk