

## South Somerset District Council

Notes of an informal meeting of the Capital Strategy Review held on Monday 14 September 2009 in Committee Room 3, The Council Offices, Brympton Way

(11.00 a.m. – 12.15 a.m.)

Present:

Members:

John Calvert (Chairman)

Pat Martin  
Rupert Cox  
Paul Robathan

Officers:

Donna Parham – Head of Finance  
Amanda Card - Principal Accountant - Corporate Finance  
Jo Gale – Scrutiny Manager

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The chair opened the meeting suggesting that the group discuss what Capital Commissions had previously covered, evaluate the current position, what outcomes need to be achieved and develop a forward plan for a successful review.

The Head of Finance gave an overview of what Capital Commission had reviewed previously:

How much capital should be released annually  
How much should be borrowed  
If the strategy was fit for purpose  
If the capital scoring and weightings were appropriate, fitting with the corporate plan

The head of Finance explained the key challenge for finance this year was how the capital strategy could deliver the corporate plan and future needs if the authority given the difficult economic climate and declining receipts.

During discussion members raised the following points:

- How secure are existing investments.
- Look at risk prior to rate of return.
- Look at treasury function and agree policy
- Identifying the revenue implications of capital schemes.
- Balancing the books and the communities needs.

- LAA rewards if targets are met – assessing the risk
- Affordable Housing does not come through capital scoring, is the process of the decisions taken and the subsequent outcomes auditable
- SSDC need to facilitate more rather than fund.
- What is capital salaries
- The strategy and scoring shouldn't put off key schemes.
- How does SSDC plan for potential funding changes as a result of political leadership
- A process needs to be implemented to analyse and score (Merriott Pavillion) an example of this
- The possibility of building houses then **passing over** the development as a package to be managed as apposed to just land.

The Head of Finance responded to comments as follows:

- A number of bonds were invested at a good time and will return an average of 5%. Bonds will mature in 2011/12, bonds can be bought now around 3% for three to four years and would give some continued stability.
- Claimed back Monies from VAT has been added to treasury cost centre with around £400,000 surplus now expected the reserve set up to smooth out the impact of the economic recession can now remain to support 2010/11 income.
- Public Works Loans Board (PWLB) rates vary on the period the loan is for, not the sum that is borrowed.
- The risk matrix for the lending strategy gives finance the parameters to work within; the head of finance has further tightened these to further reduce the current market risks.
- The 2 percent Council Tax increase gave members re-assurance that the capital strategy or corporate plan could still be achieved if the savings couldn't be met.
- A greater focus needs to be put into enabling funding packages to be pulled together.
- Capital salaries is the cost of officers working on capital schemes, this includes the time of property services.
- There is nothing within the strategy or plan for potential funding changes as a result of political leadership but it is included as a risk.
- 40-50 homes could potentially be developed without reopening the HRA

Members agreed the review would look to cover the following topics:

- Is the strategy fit for purpose
- Affordability
- How much should be released from Capital receipts to fund strategy (previously £18 million over six years)
- Look at treasury management and agree policy link to capital
- Review scoring in context of Corporate Plan and wider context of Local Area Agreement (LAA)

- Revenue Implications of Capital schemes – to be included in the Scoring methodology, Net Present Value to be included
- Managers could be set an Internal Rate of Return (IRR) to show what are managers achieving through capital spend
- Possibility of developing housing
- Encouraging partnership funding to ensure SSDC is providing Value For Money

Members agreed to aim to conclude the review prior to Scrutiny committee on 3 November 2009.

3 further meetings were planned as follows:

30 September 12.00 – 2.00 Committee Room 4

12 October 10.00 – 12.00 Committee Room 4

22 October 2.00 – 4.30 Main Committee Room

### **Action**

The Head of Finance to provide previous capital scheme cases at the next meeting for members to assess how the Net Present Value could be used within the scoring proforma and what impact it would have.

The Head of Finance to provide a working paper suggesting the outline policy link between treasury management and capital

The Scrutiny Manager to circulate examples of Similar Scrutiny Reviews and CIPFA Capital Planning and option appraisal – A best practice guide for Councils to be considered by members for benchmarking purposes.

## South Somerset District Council

Notes of an informal meeting of the Capital Strategy review held on 30 September 2009  
in Committee room 4, The Council Offices, Brympton Way

(10.00 – 12.00)

Present:

Members:

John Calvert  
Pat Martin  
Paul Robathan  
Rupert Cox

Officers:

Donna Parham – Assistant Director of Financial and Corporate Services  
Amanda Card – Finance Manager  
Jo Gale – Scrutiny Manager

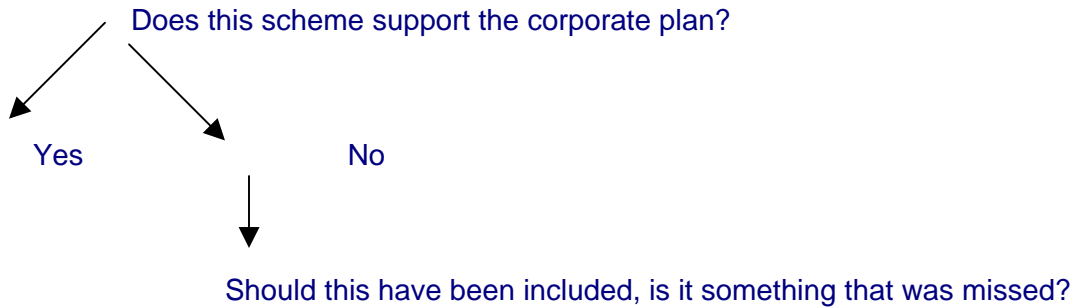
Three main areas of the review strategy were focussed on during the meeting:

Treasury Management - the following points were discussed:

- Borrowing and the impact on the budget, Donna commented the borrowing is not affordable for SSDC in the current climate.
- Preparing for and having the ability to cope with budget and grant cuts, Donna – The head of Finance is building different scenarios to plan for this.
- Protecting the revenue to continue the delivery of services.
- Less schemes coming forward so less need for capital.
- Maximise revenue and reduce spending, lowering the dependency on revenue interest.
- The Capital Programme? has to be responsive to the Market and is therefore more difficult to plan and needs actively managing.
- Not appropriate to do a 6 year strategy
- The large schemes for example Sports Zone, should they be dealt with outside of the Capital scheme, with a different approach.
- The capital scheme/Scoring methodology needs to be developed to assess Incremental type bids.
- Should we just look to PWLB for big schemes, who else can funding be sought from? If funding is not given should the scheme be reviewed or delayed as SSDC can't afford it.
- Capital interest can be used to build revenue reserves of for capital programme it's a members decision.
- If the Capital Strategy is altered will SSDC ever be able to afford large scale projects.
- Greater focus needs to be put towards pulling funding packages together.
- The risks multiply when having to pull together packages.

The scoring methodology of capital bids – the following points were discussed:

- Would the scoring methodology work better if a series of questions ‘gates’ could be used prior to the scoring to enable a greater selection of scoring criteria used on appropriate bids. This should include an assessment of NPV, operating costs, savings and when they would accrue.



Can this service be provided by another body (including partnerships)

If this service was not provided by SSDC, how much would it cost?

- The managers compiling a capital bid would need to have detailed financial information/ projections for the bid to be considered against the proposed renewed scoring template.
- A list of five criteria with a series of points under each to assist managers would be a good way forward.
- Measuring Community social benefit is as important as NPV
- Using NPV in the scoring could prevent bigger projects from coming forward as these are more costly at the outset.
- Implementation costs are not currently included in the Bid application
- Capital bids for the forthcoming year have already been submitted against the current criteria, therefore if the criteria as apposed to the weightings are altered, the changes may not be introduced until 2010/11.
- Areas Committees using the same scoring criteria.

Asset Management – the following points were discussed:

- Asset Management, Donna advised the review group that Asset management is her responsibility under the new structure and that she intends to alter the Asset review process and will develop the register to include a performance indicator for each property. The indicator would be made up of several measures, including:
  - Cost.
  - Income Yield.
  - Management cost per square metre.
  - Carbon Management per square metre.
  - Energy cost per square metre

- Internal Rate of Return

The review group suggested it would be beneficial if the Area Committee members views were sought on the outcomes of each Strategic Asset Management Groups class review for their specific area. Members could be responsible for assets in their area.

- Transferring of assets and Community Land trusts
- Need to maximise use of assets in an acceptable level of risk
- Need to dispose of assets that are of no value to SSDC

Recommendation:

Large Capital Schemes should be assessed separately; this would enable the scheme to come forward at any point in the budget cycle and not impact on other capital bids.

Large schemes can be assessed on their return, although this should not be the driving force.

Support Donna's proposals

Actions:

Donna - Add reviewing Transferral of assets and Community Land Trusts to Action Plan that will accompany Asset management plan

Amanda – Identify further information that the capital bid template would require managers to provide to assess NPV's

Donna and Amanda – Look at revising scoring proforma considering the use of gates.

## South Somerset District Council

Notes of an informal meeting of the Capital Strategy Review held on Monday 12 October 2009 in Committee Room 4, The Council Offices, Brympton Way

(10.30 a.m. – 12.15 a.m.)

Present:

Members:

John Calvert (Chairman)

Pat Martin

Rupert Cox

Paul Robathan

Officers:

Donna Parham – Assistant Director of Financial and Corporate Services

Jo Gale – Scrutiny Manager

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The chair opened the meeting and suggested that the group focus on:

Assessing the links between Financial Policy and the Corporate Plan

Examine and assess present policy on the effective maintenance of SSDC's asset base

The meetings so far had focussed on Treasury management and Ranking Capital Spending Proposals.

The group discussed how the financial policy and corporate plan are linked and felt no further clarification was needed.

Donna explained:

The Capital Strategy and Asset management policy would be taken forward as two separate documents to Full Council.

The revised Capital Strategy would be taken to Full Council first and will hopefully be in place for next year (preventing the 3 million mechanism from continuing), effectively replacing the last year of the current strategy. Any commitments that have already been made will still proceed as planned.

The Asset Management Policy will go forward a little later after giving the Asset management Group time to meet.

The Medium term Financial Strategy will have to be altered if the new strategy is agreed.

The impact of any proposed changes will be highlighted in the report.

Amanda and Donna, proposed a revised scoring methodology based on the comments from the previous meeting, the following comments/decisions were made:

- The Capital strategy needs to inform the inescapable bids.
- The gateway needs to be included in the strategy.
- Does the Scheme Reduce Carbon usage question should be replaced with is the project included in the Carbon management plan? This is less complicated.
- The can anyone else do it question needs to be balanced with the question, is it a statutory/regulatory requirement attributing 5 %
- The Does the public want it question needs to be reduced to 5%
- The NPV score needs to be altered to ensure the score represents a percentage of the return of the cost of the scheme.
- The Corporate plan specific header needs to have and Community Strategy added.
- The gates need to be altered to distinguish if a bid is being put forward as a result of a statutory or regulatory duty.
- Large projects need to be filtered by the gate system.

The exception cases/large schemes were discussed and the following comments were made:

- What constitutes a large scheme?
- Perhaps 50% or greater of capital allocation for each year.
- Need to differentiate large schemes and undertake a capital appraisal.
- What mechanism will be used to score or measure large schemes to decide if it is a good scheme for SSDC?
- Consideration needs to be given to the planning costs of a large scheme, if the scheme is not carried out resulting in an asset; the planning has to be funded through Revenue.
- Need to capture the multi-year impact, revenue implications, how the revenue will be funded, assessing the risk.

## **Action**

John, Donna and Jo - Draft a report detailing the proposed changes to go before Scrutiny Committee prior to the next meeting for the group to comment.

Donna - Review the strategy and propose amendments regarding large schemes.