# 1. INTRODUCTION

1.1 This strategy sets out the framework for capital investment at the Council. The Council adopted this latest strategy in October 2005 in order to help deliver the Council's key aims and overall vision for the District as identified in its Corporate Plan.

1.2 The strategy builds on previous capital plans and strategies adopted by the Council. Whereas previous strategies were put in place on an annual basis, this capital strategy is intended to cover a longer timescale, i.e. a medium-term period of 2006 to 2009. This is to align it to the Council's corporate and service planning framework.

1.3 The Council's first formal strategy was issued in 2000 and this provided the basis for taking capital investment forward. Subsequent strategies have built on this and a good framework is now in place. Generally, it is intended to continue and build on this framework.

**Objectives of the Strategy**

1.4 In accordance with good practice, this strategy includes an analysis of the current framework, together with the issues facing the Council. It then sets out the specific ways in which capital investment will help deliver the Council's key aims and how this investment will be financed.

1.5 The following areas are covered:

- A definition of "capital."
- An outline of how investment is planned and managed.
- A profile of the District, the Council and its key aims.
- The resources available to the Council for capital investment.
- Targeted areas for investment and the funding strategy.
- A risk assessment.
- Reviewing and developing the strategy.

1.6 Capital investment is a key factor to enable the delivery of the Council's key aims and ultimately its overall vision for the District. Therefore, it is important that capital investment, including the identification of resources to deliver it, is planned and managed carefully. This strategy is intended to do that.

# 2. WHAT DO WE MEAN BY CAPITAL

2.1 The definition of capital generally relates to the purchase of or substantial enhancement to the Council's fixed assets. These include:

- Land and Buildings
- Council Houses

- Parks and Play Areas
- Commercial Properties
- Leisure Centres
- Cemeteries
- Village Halls
- Other Community Facilities

2.2 Investment in the Council's fixed assets is financed from a variety of sources and includes:

- Borrowing
- Council House Sales from "Right to Buy"
- Disposing of fixed assets surplus to requirements
- Government Grants
- Partnership and other external funding (e.g. Lottery/Sports Council)
- Local Planning Agreements (through negotiations with developers)
- Council Reserves

2.3 Spending can be undertaken directly by the Council, in the form of grants and contributions to other bodies and within partnership arrangements with other organisations.

2.4 Capital investment by its nature tends to lead to large projects (such as renovating a local park) where the total cost is over £10,000.

## 3. PLANNING and MANAGING CAPITAL INVESTMENT

### 5-Year Planning

3.1 In accordance with good practice, the Council plans its capital investment on a 5-year rolling programme basis. The programme details current projects and the areas that the Council has targeted for on-going investment over the 5-year period.

3.2 It also sets out the resources currently available to finance investment and forecasts the amount of further resources to be available over the 5-year period. The detail is contained in the Council's budget strategy that sets out the medium-term spending and financing plans.

### Monitoring and Review

3.3 In accordance with the Council's financial strategy, the programme and resources available are monitored and reported to the Council's Finance Committee on a regular basis. Unless there are any significant variations, the plans are formally reviewed and updated on a yearly basis.

3.4 There is also an annual statement of income and expenditure with a comparison to the budgets for all capital investment.

3.5 The Council's Asset Management Group monitors progress on projects, although this is usually at a very summarised level. Historically, there has been no corporate project management system at the Council. However, the "Prince 2" methodology has been selected as the preferred tool for future use. This is being rolled out during 2005/06.

### Evaluation of Capital Investment

3.6 The Council evaluates bids for new projects in accordance with an approved scoring system that is designed to ensure that future investment is targeted at the Council's key aims. The system is also intended to ensure that all bids are properly appraised and consider factors such as outcomes to be delivered, risk, on-going costs and future savings, etc.

3.7 Each bid is assessed corporately by an independent team of Council Members and Officers. Projects, once approved by the Council, are required to set out a detailed project plan to demonstrate how the investment will be delivered. This plan is reviewed and approved by the Council's Senior Management Team.

### Project Review

3.8 Except for housing investment, the Council has traditionally spent below that budgeted on capital projects it set out to achieve in the year. This is due to a number of factors including:

- Insufficient resources to manage projects.
- Too many projects on-going at anyone time.
- Delays with partnership arrangements.
- Unrealistic profiling of expenditure.

3.9 This "slippage" needs to be placed in the context of post project review. Apart from the financial figures, the monitoring and reporting of capital investment projects is patchy and inconsistent within the Council.

3.10 In particular, there is no formal mechanism for reporting on whether the outputs and outcomes as set out were achieved and did any good practice or any lessons learnt evolve from the project.

## 4. PROFILE OF SOUTH DERBYSHIRE and the COUNCIL

### The Area

4.1 South Derbyshire has a population of approximately 86,500. For almost two decades, South Derbyshire has been the fastest growing district in Derbyshire.

Latest Census figures show that between 1991 and 2001, the population grew by 12% compared with 3% for Derbyshire and the country as a whole.

4.2 This has attracted substantial development in housing and the growth of business activity in the area. Further development is planned to 2011.

4.3 Swadlincote (with a population of about 32,500) is the main administrative and commercial centre of the district. The town is located on the South Derbyshire Coalfield where the working of coal and clay has all but disappeared. This means that regeneration is a further issue.

4.4 The rest of the area is mostly rural in character and contains a patchwork of villages and small settlements. This urban/rural contrast presents a challenge in terms of the equitable delivery of services.

4.5 A number of villages are of architectural and historic importance. A total of 22 Conservation Areas have been designated throughout the area, including one for Swadlincote Town Centre.

4.6 A large part of South Derbyshire is included within the designated area of the National Forest. This major initiative is creating a new landscape for work, recreation and wildlife.

**Housing**

4.7 In April 2005, the district's housing stock stood at 36,640, which included approximately 3,200 council houses. Around 9,500 South Derbyshire homes do not meet the Decent Homes Standard set by Government.

4.8 The rise in house prices, coupled with policies to promote sustainable development, has brought the issue of affordable housing to the fore, especially in rural areas. This is a major priority in the Council's Housing Strategy.

**Council Stock**

4.9 In October 2004, the Council resolved to retain the management and maintenance of its housing stock following a detailed review that involved consultation with its tenants. The subsequent Business Plan has identified resources (including capital investment) to meet the minimum Decent Homes target set by the Government.

4.10 However, if the Council is to aspire to higher standards as identified in the review, it will need to identify additional resources to do so.

**Public Buildings and Commercial Properties**

4.11 The Council has recently commissioned an updated stock condition survey on its own property portfolio. The Council does not currently have a planned maintenance programme on any of its buildings. Potential resource implications have been identified to bring some properties up to appropriate modern day standards.

4.12 This will feed into the Council's overall Asset Management Plan, which identifies those properties that the Council should continue to manage and maintain in their current purpose.

**Local Facilities and Issues**

4.13 South Derbyshire has 3 Leisure Centres, 45 playgrounds and parks, 6 cemeteries and a crematorium (jointly managed). In the rural areas, most villages have parish halls and meeting rooms.

4.14 Securing resources to maintain community and leisure facilities to an appropriate standard is an ongoing issue and is exacerbated by a growing population. Developing the main town centre area of Swadlincote is also coming to the fore.

4.15 In addition, provision for future burial space in certain areas of the district is starting to become an issue. Flooding and improving drainage around watercourses is another issue, especially in the more rural areas that run alongside major rivers.

4.16 Furthermore, dealing with crime and disorder and in particular the fear of crime is a key issue that has been highlighted by local residents. The Council plays an active part in the County wide Crime and Disorder Partnership.

**Implications for Services and Capital Investment**

4.17 The nature of the district creates a number of challenges for service provision. In particular, capital investment is seen as having a key input into:

- Providing extra services to meet the needs of a growing population
- Managing the associated development that enhances and protects local conservation
- Regenerating the former coalfield area
- Meeting the need for good quality and affordable homes
- Maintaining leisure, recreational and community facilities
- Maintaining the Council's property portfolio to appropriate modern day standards.

**The Council's Vision and Key Aims**

4.18 Based on the issues highlighted above, the Council's vision (as set out in its Corporate Plan) is to:

> "Promote and enhance the social, economic and environmental well-being of the community through the provision of cost effective, customer focused services."

4.19 The provision of cost effective, customer-focused services can also be related to the Government's efficiency agenda, including the development of Information Technology (I.T.) in order to improve services.

4.20 To enable this vision to be delivered, the Corporate Plan has also set out a number of key aims. After consultation across the District, these have been identified as **Primary** and **Secondary** aims. Capital investment has a key role to play in most, and in particular:

Primary Aims

- Caring for the Environment
- Economic Development (in particular Regeneration)
- Reducing Crime and Disorder
- Improving Services

Secondary Aims

- Providing Good Quality (and Affordable) Homes
- Leisure Activities

## 5. AVAILABLE RESOURCES FOR CAPITAL INVESTMENT

5.1 Historically, the Council has received Government support to finance borrowing to undertake capital investment. Although this will continue into 2006, it is less certain in following years and will be subject to government spending reviews and the distribution of resources through Regional Boards.

5.2 Government support has been a reducing proportion of the Council's overall capital investment. The Council is now relying to a greater extent on its own resources and to lever in external funding from various sources and/or by working in partnership.

5.3 The maximisation of resources is a key factor of this strategy to enable capital investment and the Council channels efforts in various ways to achieve this.

5.4 However, funding is only sought if it will contribute and help deliver on the Council's priorities or Government targets.

**The Council's Own Resources (Capital Receipts)**

5.5 These are mainly generated from council house sales and the disposal of surplus assets. Council house sales in particular are not easily predicted and fluctuate over a period of time. They are also finite and once used are not automatically replaced.

5.6 The Council is required to pay over to a Government Pool a proportion of capital receipts generated from the sale of housing related land and buildings. However, between 2004/05 and 2006/07, it will benefit from reduced payments due to it having no Government debt outstanding.

5.7 These (windfall) receipts must be reinvested in housing (public or private sector) and the Council has already made plans to use these receipts accordingly.

5.8 In addition, payments can virtually be avoided where the Authority can demonstrate that it is reinvesting receipts in **providing low cost affordable housing or for regeneration** (the **"in and out"** rules).

5.9 The Council is anticipating building up an additional pot of capital receipts over the next three years due to the above factors. However, there will always be competing needs for these resources and statutory requirements to meet, such as topping up Government allocations for Disabled Facility Grants.

5.10 Therefore, the Council aims to achieve a careful and properly planned release of capital receipts.

**Additional Asset Disposals**

5.11 Apart from council house sales, other asset disposals have traditionally been ad-hoc, although the sale proceeds have been significant. In addition, through the planning system, the Council has been able (and will continue) to generate extra resources with developers to provide local community facilities and as contributions to environmental projects (Section 106 funding).

5.12 The Council identifies areas of land and other assets for disposal that will be surplus to requirements in the future.

5.13 As part of the Council's asset management plan, assets surplus to requirements, are identified for disposal to generate resources for future capital investment.

**Borrowing**

5.14 The Council is allowed to borrow money under a prudential borrowing regime to fund capital investment. To enable this, the Council is required to adhere to a set of prudential indicators and needs to demonstrate that the associated costs of loans are affordable and sustainable.

5.15 The use of prudential borrowing is kept under review especially around the principle of "invest to save."

**Invest to Save**

5.16 In principle, this means that revenue savings or additional income generated through a project pay for the initial investment.

5.17 The Council's adopts "good practice" criteria when making decisions about prudential borrowing and this is outlined at Appendix 1.

**Private Finance Initiative (PFI)**

5.18 Due to the relatively small size of the Council and its capital projects, it is considered that pure PFI has limited scope for generating capital investment.

5.19 It has previously been considered in one or two areas such as for the future management and maintenance of the housing stock. However, this was not considered the best method for capital investment.

5.20 The Council has a track record in attracting private funding to finance capital investment and will consider all alternatives.

5.21 Therefore, PFI is not being ruled out as an option when considering capital investment.

## 6. TARGETING CAPITAL INVESTMENT

6.1 It has been highlighted that capital investment is a key factor in delivering the Council's key aims. This is currently being achieved in a number of ways and this will be continued in many cases. The areas are detailed below.

| Key Aim | Strategy to achieve this via Capital Investment |
|---|---|
| The Environment and Regeneration | • Work with local businesses, developers and other agencies to improve both the natural and built environment and secure the necessary investment. For example, through the Heritage Economic Regeneration Scheme and Section 106 funding.<br>• Secure Government funding to deal with identified flooding problems.<br>• Work with businesses and developers to regenerate and develop the town centre, where possible, at little or no cost to the Council.<br>• To set-aside resources to deal with service related issues, such as provision of additional burial space. |
| Crime and Disorder | • Work within the Crime and Disorder Partnership to secure the necessary investment to put in place measures to deter and reduce the fear of crime. This will be supplemented by the Council's own resources as earmarked in its 5- |

| | |
|---|---|
| | year rolling programme. |
| Improving Services | • Ensure that the Council's properties meet acceptable modern day standards by maximising current resources set-aside for this purpose and by reinvesting proceeds from other asset disposals as identified in the Council's Asset Management Plan.<br>• Secure Government funding (either directly or through the Derbyshire Partnership of authorities) to implement and develop Information Technology. |
| Housing | • Ensure that the Council's housing stock is maintained to minimum standards. The Government's Major Repairs Allowance is specifically awarded to achieve this.<br>• Meet the Decent Homes Standard in the Private Sector and improve disabled facilities, tackle fuel poverty, etc as set out in the Council's Housing Strategy. Investment funded by maximising Government Grants and capital receipts.<br>• Work in partnership with developers and housing associations to provide low cost affordable housing. In addition, secure further investment by maximising any Government allocations and to make use of the "in and out" rules. |
| Leisure/ Community Facilities | • Improve and provide new facilities. Funding will be predominantly external and via Invest to Save schemes which could be financed by borrowing.<br>• Ensure that play areas and equipment meet acceptable modern day standards. Funding via other asset disposals as identified in the Council's Asset Management Plan.<br>• Improve and provide new community facilities in high growth areas. Investment to be predominantly secured through Section 106 agreements.<br>• Continue investment in Community Partnership Scheme and provide seed/matched funding to community and voluntary groups. |

**Funding Strategy**

6.2 There is a balance to achieve between meeting national priorities and standards and meeting local and community needs. Some overlap will clearly exist. In addition, the Council's resources for capital investment are limited and external funding and partnership working are increasingly important.

6.3 The above analysis showing the role of capital investment has some common themes regarding funding. The key areas can be summarised as set out in the following table.

| **Funding Stream** | **Investment to be Delivered** |
|---|---|
| Government grants, borrowing allocations and other contributions such as the Major Repairs Allowance. | National and Regional Priorities |
| Partnerships | National and Regional Priorities |
| Local Businesses and Developers | Regeneration and environmental issues |
| External Funding such as Lottery, Sports Council, etc. | Leisure and recreational facilities |
| Section 106 | Community and recreational facilities |
| Asset Disposals | Maintaining other assets to acceptable modern day standards |
| Debt Free Receipts | Housing |
| In and Out Rules | Housing and Regeneration |
| Council's own Resources (capital receipts) | Rolling programmes such as private sector housing, community partnerships and as matched funding to supplement other areas. |

**Evaluating Project Bids for Investment**

6.4 The Council uses a scoring system to evaluate and prioritise projects. Each bid is required to outline the proposal and to quantify the outputs and outcomes to be delivered. The scoring system is detailed in **Appendix 2.**

6.5 The scoring system is weighted towards how much a proposed project will contribute to the Council's **primary aims**. The system also takes into account risk, on-going costs, savings/generation of income and external funding. It is designed to ensure that the many factors associated with capital investment are considered.

## 7. ASSESSMENT OF RISK

7.1 The main barriers that could prevent this strategy being delivered are:

- Organisational capacity to deliver the investment
- Limited Resources
- Too much reliance on external funding and partnerships

**Organisational Capacity**

7.2 Clearly, the level of resources to manage projects and to deliver all desired outcomes is an issue for a smaller authority such as South Derbyshire. As previously highlighted, "slippage" on projects is a perennial problem for the Council.

7.3 However, the evolvement of "Prince 2" methodology should help to develop the planning and management of individual projects. Consequently, the following factors will be considered in the future:

- Prioritising the timing and delivery of projects in each area.
- Detailed profiling of spending and project outputs/outcomes at the evaluation stage.
- An assessment of available capacity to deliver the project.

**Limited Resources**

7.4 As previously highlighted, the Council's resources (mainly capital receipts) are finite and once used are not automatically replaced. In addition, the main source of receipts (council house sales) has slowed dramatically over the last 12 months, although the value being received for each one is increasing in line with the rise in house prices.

7.5 However, the Council does have a good base. For example, access to the "windfall" receipts over the next 3-years, will provide a significant boost to housing investment in particular.

7.6 In addition, the Council should be in a position to utilise the "in and out" rules to maximize capital receipts within the Council. Furthermore, the Council, through its asset management process, identifies assets surplus to requirements for disposal to generate resources.

**External Funding and Partnerships**

7.7 During 2004/05, external contributions provided almost 50% (£1m) of the funding for non-housing investment. This is expected to grow over the next 3 years as money has been secured to provide new community and leisure facilities.

7.8 The Council has a good track record of attracting funding into the area for regeneration and leisure due to its growth and developing nature. In addition, the main attraction for the national forest in the District (Rosliston Forestry Centre) has attracted substantial investment to develop it as a main tourist attraction. In addition, Section 106 funding continues to be secured for enhancing community and recreational facilities.

**Not High Risk**

7.9 Overall therefore, it is not considered that the strategy is a high risk one, although clearly there is a degree of uncertainty and this will be monitored. In addition, there are other funding streams that have not been appropriate to-date that could be considered. For example, as previously highlighted, PFI and borrowing.

## 8. REVIEWING and DEVELOPING THE STRATEGY

8.1 Clearly, the strategy continues to evolve and develop in response to new service needs and policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually. It is updated where necessary.

8.2 It is anticipated that issues arising from the recent implementation of the local **Community Strategy (through the Local Strategic Partnership)** could have a fairly big impact over this planning period. This may influence the Council's future direction in respect of capital investment and this will be kept under review.

8.3 There are areas that will be developed over this planning period to strengthen the planning and management of capital at the Council. In particular, that relating to the capital programme when evaluating individual projects, as set out in **paragraph 7.3**.

8.4 In addition, project monitoring and post project review will be improved by the use of "Prince 2" and this should enhance the monitoring and reporting of project outputs/outcomes.

8.5 Furthermore, the Council's Asset Management Plan is being developed over this planning period. This is vital in establishing assets surplus to requirements that can be disposed of to generate additional resources for capital investment.

APPENDIX 1

# CRITERIA FOR PRUDENTIAL BORROWING
# INVEST TO SAVE SCHEMES

## 1. DEFINITION OF INVEST TO SAVE

1.1 There are two types of invest to save schemes:

- Revenue - where revenue savings meet the financing costs. For example, replacing a boiler and generating savings in energy costs, or providing leisure facilities that generate an income stream in the future.

- Capital - where future capital receipts repay the borrowing. For example, purchasing parcels of land to consolidate for sale as part of a regeneration or housing iniative.

1.2 Invest to Save must be self-financing - in other words, where repayments cover the cost of investment plus interest.

## 2. CRITERIA

2.1 Revenue Schemes

- Schemes should be able to repay the initial investment plus interest over a period not exceeding 5 years.

- The repayment period of the borrowing should not exceed the life of the asset.

- Schemes with higher risk (mainly dependant on income generation) should have a margin of safety built into them, i.e. repay 1.5 times the initial investment plus interest.

2.2 Capital Schemes

- Schemes should be able to repay the initial investment plus interest over a period not exceeding 3 years.

- Repayment should cover investment plus two times annual financing costs because of the risk associated with generating the necessary capital receipts.

- A full financial appraisal should be undertaken using discounted cash flow techniques.

2.3 Capital Scheme - Example

- Initial investment of £500,000 costing £50,000 per year in financing charges. To repay in 3 years, the future value must be anticipated to be at least £800,000 (being £500,000 plus 3 times £100,000).

- The first call upon proceeds would be debt repayment to avoid debt escalating over time and the associated interest costs continuing beyond the timescale of the project.

- The actual repayment of debt would form part of the Council's Treasury Management Strategy and have regard for the associated prudential indicators.

# EVALUATION OF NEW CAPITAL INVESTMENT PROJECTS
# APPROVED SCORING SYSTEM

| | |
|---|---|
| **Council Priorities** | **48%** |
| **Local & National Priorities** | **16%** |
| **Risk Analysis** | **18%** |
| **Financing & External Support** | **18%** |

## 1. COUNCIL PRIORITIES

**a) Out of the Council's PRIMARY Aims contained in the Corporate Plan, which <u>ONE</u> is the bid mostly aligned to and the degree of its contribution (30%)**

| | |
|---|---|
| A major contribution | **3** |
| A moderate contribution | **2** |
| A minor contribution | **1** |
| No contribution | **0** |

**b) How far does the bid contribute to any other of the Primary Aims (12%)**

| | |
|---|---|
| A major contribution | **3** |
| A moderate contribution | **2** |
| A minor contribution | **1** |
| No contribution | **0** |

**c) How far does the bid contribute to the Council's Secondary Aims (6%)**
(See separate list)

| | |
|---|---|
| A major contribution | **3** |
| A moderate contribution | **2** |
| A minor contribution | **1** |
| No contribution | **0** |

## 2. LOCAL & NATIONAL PRIORITIES

**a) Contribution to "shared priorities" as set out in the Council's Corporate Plan (12%)**
(See separate list)

| | |
|---|---|
| A major contribution | **3** |
| A moderate contribution | **2** |
| A minor contribution | **1** |
| No contribution | **0** |

**b) To what extent does the bid involve Partnership working, both financial and other (4%)**

| | |
|---|---|
| **Yes** | **1** |
| **No** | **0** |

## 3. RISK ANALYSIS

**a) If the costs exceeded budget, is there an exit strategy and/or can the project be scaled down accordingly (4%)**

| | |
|---|---|
| Yes | **1** |
| No | **0** |

**b) Has an options appraisal been undertaken or some other form of assessment to determine the need and viability of the project (8%)**

| | |
|---|---|
| Full Options Appraisal done | 2 |
| Other assessment completed | 1 |
| No formal assessment | 0 |

**c) How does the bid help minimise key risks identified in your Service Plan (6%)**

| | |
|---|---|
| A major contribution | 3 |
| A moderate contribution | 2 |
| A minor contribution | 1 |
| No contribution | 0 |

## 4. FINANCING & EXTERNAL SUPPORT

**b) Are there any on-going revenue costs (6%)**

| | |
|---|---|
| No | 1 |
| Yes | 0 |

**c) Will any service income be generated (4%)**

| | |
|---|---|
| Yes – and has been reasonably estimated | 2 |
| Yes – but only general assumptions have been made | 1 |
| No | 0 |

**d) How much external funding is being levered in – as a percentage of the cost (4%)**

| | |
|---|---|
| 75% + | 4 |
| 50% to 74% | 3 |
| 25% to 49% | 2 |
| 1% to 24% | 1 |
| Nil | 0 |

**e) How certain is the external funding (4%)**

| | |
|---|---|
| It is definite/reasonably secure | 2 |
| There is potential/being investigated | 1 |
| There is no external funding | 0 |