

## 1. INTRODUCTION

1.1 This strategy sets out the framework for capital investment at the Council. The Council adopted this strategy in October 2009 in order to help deliver the Council's priorities as identified in its Corporate Plan.

### Objectives of the Strategy

1.2 In accordance with good practice, the 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 services and priorities and how this investment will be financed.

1.3 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, its priorities and issues.
- The resources available to the Council for capital investment.
- Targeted areas for investment and the funding strategy.
- A risk assessment.

1.4 Capital investment is a key factor to enable the delivery of the Council's services and priorities. Therefore, it is important that capital investment, including the identification of funding to deliver it, is planned and managed carefully. This strategy is intended to do that.

### Timescale

1.5 The strategy is a medium-term one to fit in with the Council's corporate planning framework. Clearly, the strategy may develop in response to new financial opportunities/risks and new policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually. It is updated where necessary.

## 2. WHAT IS MEANT BY CAPITAL EXPENDITURE

2.1 The definition of capital (in financial terms) generally relates to the purchase of or substantial enhancement to the Council's assets and the provision of new facilities. These include:

- Land and Buildings
- Council Houses
- Parks and Play Areas (including buildings thereon)
- Commercial Properties
- Leisure Centres
- Cemeteries
- Village Halls
- Other Community Facilities, etc.

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

- Council House Sales from "Right to Buy"
- Disposing of fixed assets surplus to requirements
- Government Grants
- External funding (e.g. Lottery/Sports Council)
- Within Partnerships
- Local Planning Agreements (through negotiations with developers)
- Prudential Borrowing
- 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 where the total cost is generally 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, future commitments and the areas that the Council has targeted for on-going investment over the 5-year period.

3.2 It also sets out the funding currently available to finance investment and forecasts the amount of further funding to be available over the 5-year period. The detail is contained in the Council's Medium Term Financial Plan.

#### **Monitoring and Review**

3.3 In accordance with the Council's financial strategy, the programme and funding available are monitored monthly and reported to the Council's Finance and Management Committee on a regular basis. Unless there are any significant variations, the overall plan is formally reviewed and updated twice per year.

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

#### **Evaluation of Capital Investment**

3.5 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 priorities.

- 3.6 The system is also intended to ensure that all bids are properly appraised and consider all factors. For example, benefits, risk, on-going costs and future savings, etc.
- 3.7 An independent panel assesses each bid corporately.

### **Project Review and Monitoring**

- 3.8 Besides financial monitoring, the Council's main policy committees receive regular reports on major projects as they progress and when they are completed. Programmes such as planned maintenance on council houses are reviewed and formally approved each year.
- 3.9 In addition, other projects, which have secured external funding, are usually subject to periodic reports being submitted to the funding body.

## **4. PROFILE OF SOUTH DERBYSHIRE and the COUNCIL**

### **The Area**

- 4.1 South Derbyshire has a population of approximately 92,400 (ONS mid 2008 estimate). The District continues to be one of the fastest growing districts in the East Midlands. In fact, it was the 6<sup>th</sup> highest in population growth nationally between 2001 and 2007 compared to all other local authorities.
- 4.2 This has attracted substantial development in housing and the growth of business activity in the area. Although currently slowing due to the economic climate, this development is on going.
- 4.3 The District continues to be a main destination for inward investment, with organisations such as Toyota, JCB and Nestle all having major sites in South Derbyshire. East Midlands Airport also borders its boundaries.
- 4.4 Swadlincote is currently the main urban centre of the district. The town is located on the former South Derbyshire Coalfield where substantial regeneration continues.
- 4.5 The rest of the District is predominantly rural in character, with a number of villages being 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 third of the National Forest lies within the District and this major initiative is creating a new landscape for work, recreation and wildlife.
- 4.7 Indeed, substantial investment has been generated in recent years to develop the Rosliston Forestry Centre, which is becoming a major recreational and educational facility in the District.

## **Housing**

- 4.8 In July 2009, the district's housing stock stood at approximately 39,000, which included just fewer than 3,100 council homes.
- 4.9 The rise in house prices over recent years, coupled with policies to promote sustainable development, has brought the issue of affordable housing to the fore, especially in rural areas. Addressing this is a key priority in the Council's Housing Strategy.

## **Council Stock**

- 4.10 The current business plan for the Council's stock has allocated funding to meet the minimum Decent Homes standard set by the Government ahead of target (2010). However the latest Stock Condition survey just reported has identified a potential shortfall in resources of £13m to maintain and improve standards over the next 10 years.
- 4.11 In addition, the Council adopted a vision for its sheltered housing stock in 2003 to upgrade and modernise these homes. Although substantial funds from the sale of housing assets have been directed to meet this vision under the Government's "Low Cost Affordable Housing" Policy, further finance of £300,000 is still required to meet all of the planned investment.

## **Public Buildings and Commercial Properties**

- 4.12 In accordance with its Asset Management Plan, the Council has an on-going programme of stock condition surveys on its own property portfolio.
- 4.13 Consequently, it has set out a planned maintenance programme and has allocated funding alongside a financing strategy to deal with the higher priority maintenance issues, including health, safety and other legislative issues.

## **Local Facilities and Issues**

- 4.14 South Derbyshire owns 2 Leisure Centres, numerous playgrounds and parks, 3 cemeteries and a crematorium (jointly managed). In the rural areas, most villages have parish halls and meeting rooms. Stock condition surveys highlight a need to bring some of these facilities up to modern day standards.
- 4.15 Securing resources to maintain community and leisure facilities to an appropriate standard is an ongoing issue and is exacerbated by a growing population.
- 4.16 In addition, provision for future burial space in certain areas of the district is also an issue. Flooding and improving drainage around watercourses is another area, especially in the more rural parts of the District, where 3,772 buildings are at medium flood risk.

4.17 Finally, the recent Place Survey (2008) conducted independently highlighted that local residents perceive an issue with teenagers and rubbish in the area.

**Implications for Services and Capital Investment**

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

- Providing extra services and facilities to meet the needs of a growing population
- Managing development pressures in sustainable ways
- Regenerating the former coalfield area
- Meeting the need for good quality and affordable homes
- Maintaining and creating leisure, recreational and community facilities to an appropriate standard
- Maintaining the Council’s property portfolio to modern day standards.

**The Council’s Vision and Priorities**

4.19 This is set out in its Corporate Plan (2009 to 2014) and is:

“Making South Derbyshire a better place to live, work and visit.”

4.20 To enable this vision to be delivered, the Corporate Plan has also set out 4 key themes:

- 1 - Sustainable growth and opportunity
- 2 - Safe and secure
- 3 - Lifestyle choices
- 4 - Value for money

4.21 The priorities within each theme are summarised in the following table.

<b>Theme 1</b>	<p><b>Sustainable Growth and Opportunity</b></p> <ul style="list-style-type: none"> <li>• Economic development – skills, training and job creation</li> <li>• National Forest – tourism and industry</li> <li>• Sustainable development – affordable housing, environment and planning</li> </ul>
<b>Theme 2</b>	<p><b>Safe and Secure</b></p> <ul style="list-style-type: none"> <li>• Promoting independence, security and inclusion through the provision of decent housing</li> <li>• Safer Neighborhoods</li> </ul>
<b>Theme 3</b>	<p><b>Lifestyle Choices</b></p> <ul style="list-style-type: none"> <li>• Promoting healthy facilities and lifestyles</li> <li>• Supporting cultural events and activities</li> <li>• Helping the community to reduce its environmental footprint</li> </ul>

<b>Theme 4</b>	<b>Value for Money</b> <ul style="list-style-type: none"><li>• Meeting community needs</li><li>• Increasing efficiency</li><li>• Development of staff and Members</li><li>• High standards of corporate governance</li><li>• High performing services</li></ul>
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## 5. AVAILABLE RESOURCES FOR CAPITAL INVESTMENT

- 5.1 Historically, the Council has received Government support to finance capital investment. However, it is never certain from year to year and is subject to government spending reviews and the distribution of resources through Regional Boards.
- 5.2 This general support has been a reducing proportion of the Council's overall capital investment. The Council has relied on its own resources which are now very limited. However, it has an excellent track record of leveraging 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 the Council's priorities.**

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

- 5.5 These have traditionally been generated from council house sales and the disposal of land for development. Council house sales in particular are not easily predicted and fluctuate over a period of time. The proceeds generated 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 land and buildings.
- 5.7 In addition, some payments can be avoided where the Council can demonstrate that it is reinvesting receipts in providing low cost affordable housing or for regeneration of land in accordance with Government guidance. These are known as **retained sums**.
- 5.8 Consequently, the Council had built up capital receipts in recent years due to the above factors that have or are committed to be spent.
- 5.9 However, the Council has over the last 2 years seen a substantial reduction in the level of council house sales and this is placing considerable pressure upon being able to finance outstanding commitments in the current capital investment programme.

- 5.10 **Therefore, the Council adopts a careful and properly planned release of its capital receipts.**

### **Other Asset Disposals**

- 5.11 The sharp reduction in council house sales is now placing added pressure to identify other resources. Through the planning system, the Council has been able (and will continue) to generate extra resources with developers to provide local community facilities (Section 106 funding). In addition, the planning system can be used to provide affordable housing.
- 5.12 In accordance with its Asset Management Plan, the Council adopted a Disposals Policy in February 2006. This framework is being used to identify assets surplus to requirements for disposal to generate money for future capital investment.

### **Borrowing**

- 5.13 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 performance indicators and needs to demonstrate that the associated cost of loan finance is both affordable and sustainable.
- 5.14 **The use of prudential borrowing is kept under review especially around the principle of “invest to save.”**

### **Invest to Save**

- 5.15 In principle, this means that revenue savings or additional income generated through a project pay for the initial investment over time.
- 5.16 **The Council adopts good practice criteria when making decisions about prudential borrowing based on the “Sheffield” (City Council) model.**

### **Private Finance Initiative (PFI)**

- 5.17 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. It has previously been considered in one or two areas such as for the future maintenance of the housing stock. However, this was not considered the best method for capital investment at this time.
- 5.18 The Council has a track record in attracting private funding to finance capital investment but will consider all alternatives. **Therefore, PFI is not ruled out as an option when considering capital investment.**

**6. TARGETING CAPITAL INVESTMENT**

- 6.1 The latest projections on capital investment as reported to the Council in September 2009, highlighted a projected shortfall in financing all commitments over the next 5-years, of approximately £2m. Furthermore, pressures have been identified to meet the demand for disabled facility grants.
- 6.2 Against this, capital investment is considered to be an essential factor in delivering the Council's priorities. Although there may be further capital receipts generated in the future from the sale of surplus assets in particular, these are by no means guaranteed and cannot be currently anticipated when considering new investment
- 6.3 Capital investment has helped to deliver the Council's priorities in a number of ways and this will be continued in many cases. This is detailed in **Appendix 1**.

**Funding Strategy**

- 6.4 There is a balance to achieve between meeting national priorities and standards and meeting local and community needs. Some overlap will clearly exist.
- 6.5 It has been highlighted that the Council's resources for capital investment are limited. This means that external funding and generating funds from surplus assets are increasingly important.
- 6.6 The analysis in **Appendix 1** shows the role of capital investment has some common themes regarding funding. The key areas can be summarised as set out in the following table.

<b>Funding Stream</b>	<b>Investment to be Delivered</b>
Government grants 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 receipts	Community and recreational facilities, and where possible, provision of affordable housing.
General capital receipts	Rolling programmes such as private sector housing, community partnerships, crime and disorder, planned maintenance and as matched funding to supplement other areas and delivery of new projects.



Housing capital receipts	Current policy is to consider each receipt as and when they arise. A Committee decision is then made to reinvest in an approved Low Cost Affordable Housing/Regeneration scheme, or a general scheme on the approved priority list. However, the latter would mean a proportion of the receipt being paid to the National Pool.
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## Evaluating Project Bids for Investment

- 6.7 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.
- 6.8 The scoring system is weighted towards how much a proposed project will contribute to the Council's priorities. The system also takes into account risk, on-going costs, savings/generation of income and external funding.
- 6.9 It is designed to ensure that the many factors associated with capital investment are considered as objectively as possible.

## 7. ASSESSMENT OF RISK

- 7.1 The main barriers that could prevent this strategy being delivered are:
- Internal resources (capacity) to deliver the investment.
  - Limited finances, with an increasing reliance on external funding and generating additional money.

### Internal Resources

- 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. Delays on delivering all capital projects to the initial timescale have historically been an issue for the Council.
- 7.3 The Council uses a specialised project monitoring system to manage individual schemes. In addition, the following factors are considered at the evaluation stage:
- Detailed profiling of spending and project outputs/outcomes

- An assessment of available capacity to deliver the project and whether external support is required.

### **Limited Finances**

- 7.4 As previously highlighted, the Council's financing (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 recent years from 120 in 2004/2005 to only 6 in 2008/09.
- 7.5 Currently, this is limiting scope for further (new) investment beyond 2009/10. However, it is expected that other receipts, which could be fairly substantial, will be generated between now and 2015.

### **External Funding**

- 7.6 The Council has a good record of attracting funding into the District for regeneration and leisure in particular. This has been a consequence of the growth and developing nature of South Derbyshire.
- 7.7 For example, one of the main attractions for the National Forest in the District (Rosliston Forestry Centre) has attracted substantial investment to develop it as a main recreational and educational facility. Over the last year, substantial capital funding helped build a new leisure centre in Etwall.
- 7.8 Furthermore, Section 106 funding continues to be secured for enhancing community and recreational facilities. Growth point and DDEP funding has recently been awarded to the Council to supplement regeneration programmes across the District.

### **Not High Risk**

- 7.9 Overall therefore, it is considered that the strategy is not a high risk one. However as the strategy highlights, there is a degree of uncertainty, especially around funding and this will continue to be monitored.
- 7.10 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 prudential borrowing, but clearly with regard to value for money.

**APPENDIX 1**

**HOW CAPITAL INVESTMENT HELPS THE COUNCIL'S PRIORITIES**

<b>Theme</b>	<b>Strategy to achieve this via Capital Investment</b>
<b>Sustainable Growth and Opportunity</b>	<ul style="list-style-type: none"> <li>• Continuing the Swadlincote Town Centre Public Realm Improvements through DDEP and Growth Point funding.</li> <li>• Developing Rosliston Forestry Centre through the National Forest Partnership and DDEP funding. In particular the provision of new business units.</li> <li>• Extend recycling and composting facilities across the District through Government grants and own resources.</li> <li>• Deliver community based environmental programmes substantially funded through Groundwork Trust funding.</li> <li>• Secure Government funding to deal with identified flooding problems.</li> <li>• Work in partnership with developers and housing associations to provide low cost affordable housing.</li> <li>• Work with businesses and developers to regenerate and develop the town centre and the South Derbyshire economy where possible, at little or no cost to the Council.</li> </ul>
<b>Safe and Secure</b>	<ul style="list-style-type: none"> <li>• Work with the Safer South Derbyshire Partnership to secure external funding to deliver safer neighborhood projects. This is supplemented from the Council's own resources wherever possible.</li> <li>• Continue to provide dedicated youth facilities through external funding and the Council's own resources.</li> <li>• Ensure that the Council's housing stock is maintained to minimum standards and further improvements made where funding is identified. The Government's Major Repairs Allowance is specifically awarded to achieve this, supplemented by maximising capital receipts from housing disposals.</li> <li>• Improve the level of decent homes 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 retained capital receipts.</li> <li>• Work in partnership to deliver the Swadlincote Extra Care project utilising the Council's asset holdings to lever in external financing.</li> </ul>
<b>Lifestyle Choices</b>	<ul style="list-style-type: none"> <li>• Improve and provide new leisure and recreational</li> </ul>

## CAPITAL INVESTMENT STRATEGY

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	<p>facilities. Funding will be predominantly external with, for example, through the Government's free-swimming programme.</p> <ul style="list-style-type: none"><li>• Invest to save schemes (financed by borrowing) available as an option.</li><li>• Improve and provide new community facilities in high growth areas. Investment to be predominantly secured through Section 106 agreements.</li></ul>
<b>Value for Money</b>	<ul style="list-style-type: none"><li>• Secure Government funding directly or through the Derbyshire Partnership and RIEP to expand the number of services delivered electronically or in partnership.</li><li>• Ensure that the Council's properties meet acceptable modern day standards including investment in efficiency measures, by maximising current resources set-aside for this purpose, together with reinvesting proceeds from other asset disposals as identified in the Council's Asset Management Plan.</li></ul>