

COUNCIL MEETING – 21ST APRIL 2016

AGENDA ITEM NO. 6 (3)

STRATEGY FOR THE FLEXIBLE USE OF CAPITAL RECEIPTS 2016/17

A report from the meeting of the Cabinet on 29th March 2016.

1 Introduction

- 1.1 Cabinet received a report at its meeting on the 29th March 2016 (FIN1609) providing background to the direction issued by the Secretary of State for Communities and Local Government (DCLG), relating to the treatment of costs as capital expenditure and the updated guidance on the flexible use of capital receipts. Under normal rules, capital receipts can only be used to fund capital expenditure, however, for a 3-year period from 1st April 2016, local authorities will be able to spend any revenues generated from selling fixed assets to fund the cost of improvement services.
- 1.2 The proposed changes require the Council to set a strategy in order to take advantage of this favourable short-term relaxation of the expenditure rules.

2 Statutory Guidance

- 2.1 The DCLG has published guidance, setting out requirements for a dedicated strategy document, with the key points being:
 - The guidance applies from 1st April 2016 – 31st March 2019
 - The Council can only use receipts from the disposal of property, plant and equipment **received within the period to which the guidance applies** i.e. it cannot use its existing stock of capital receipts from the sale of assets in previous years
 - A strategy setting out the projects to be funded through the flexible use of capital receipts should be prepared annually and presented to full Council
 - The strategy should list each project that plans to make use of the flexibility alongside the expected benefits of each of those projects
 - The strategy should show the effect of the plans on the Council's prudential indicators
 - Subsequent strategies should report on the projects approved in previous years and whether planned savings or efficiencies have been realised
 - Strategies may be revised during the year – revised strategies will need to be copied to DCLG.
 - Approved strategies should be made available on-line, free of charge

3 Recommendation

- 3.1 The Council is recommended to approve the Strategy for the Flexible Use of Capital Receipts 2016/17, attached as Appendix A.

P.G. TAYLOR
CABINET MEMBER FOR CORPORATE SERVICES

STRATEGY FOR THE FLEXIBLE USE OF CAPITAL RECEIPTS 2016/17

1 Introduction

- 1.1 This strategy has been prepared in response to the Secretary of State's direction for the *Treatment of Costs as Capital Expenditure*, issued 17 December 2015, under sections 16(2)(b) and 20 of the Local Government Act 2003 ("the Act").
- 1.2 The strategy has regard to the *Guidance on Flexible Use of Capital Receipts* issued by the Secretary of State under section 15 (1)(a) of the Act and the following publications issued by the Chartered Institute of Public Finance and Accountancy (CIPFA):
- *The Prudential Code for Capital Finance in Local Authorities*
 - *The Code of Practice on Local Authority Accounting*
 - *Treasury Management in the Public Services: Code of Practice and Sectoral Guidance Notes*
- 1.3 The strategy covers:
- Review and monitoring
 - Disposal of assets to generate capital receipts
 - Service reform projects
 - Qualifying costs
 - Expected benefits
 - Impact on prudential indicators

2 Strategy Review

- 2.1 The Strategy is required to be updated at least annually; this can be done as a separate strategy document or as part of the Medium Term Financial Strategy or annual budget process.
- 2.2 Subsequent strategies will report on the progress of each project and whether planned savings or efficiencies have been realised.
- 2.3 Where strategies are revised during the year, they must be approved by Council and copied to DCLG.

3 Disposal Of Assets To Generate Capital Receipts

- 3.1 Only receipts from the disposal of capital assets received after 1st April 2016 will be eligible for use to fund qualifying costs of service reform.
- 3.2 The Legal and Estates department is currently reviewing the Council's portfolio of assets as part of the "Better Use of Property and Assets" section of the Council's 8-point plan. As part of this work, assets will be identified that are suitable for disposal in order to generate receipts that

may be used to support other invest-to-save and efficiency projects.

- 3.3 Any intended disposals will be reported to Cabinet for approval.
- 3.4 It is estimated that receipts of around £500,000 will be received during 2016/17 for use under this strategy.

4 Service Reform Projects

- 4.1 The Council already has an 8-point plan for achieving financial sustainability and the majority of projects for service reform, set out in Table 1, have been drawn from the existing plan. The plan is an adaptive one, which is periodically updated as the financial position changes and as new projects are developed.
- 4.2 Service reform projects can still be financed in whole or in part from other sources e.g. the Service Improvement Fund. The Council is not obliged to fund these projects from capital receipts, however, on the adoption of this strategy, will have the option to do so.

5 Qualifying Costs

- 5.1 In order to be met from capital receipts, costs must meet the definition set out in the direction i.e. that the costs are incurred in order to generate ongoing revenue savings in the delivery of services and/or transform service delivery in a way that reduces costs or demand for services.
- 5.2 Set-up and implementation costs can be counted as qualifying costs while the on-going revenue costs of new processes or arrangements cannot.

6 Expected Benefits

- 6.1 A short description of the expected benefits of each project is set out in the following table with an initial estimate of the qualifying costs and the potential future saving.

TABLE 1 - SERVICE REFORM PROJECTS

Efficiency and Transformation projects

Project	Project Description	Project Deliverables	Benefits	£	Qualifying costs	£
Systems Thinking	To improve the delivery of services and reduce costs by embedding the systems thinking approach throughout the organisation	Service reviews Embedding learning Support to sustainability initiatives including Channel Shift (see below)	Reduced processing times Improved customer experience Streamlined processes leading to reduced costs	£50k p/a (in addition to savings shown against other initiatives)	Backfill of staff time during reviews. Initial set up costs e.g. for IT system changes Training delivery costs	£25k
Channel Shift and Mobile Working	The provision of effective and efficient channels through which services are delivered and by which customers have contact with the Council	New customer contact platform Self-service portal Mobile working for front-line staff Decommissioning of legacy systems Web site redesign Electronic post solution	Reduced processing times Improved customer experience Reduction in IT costs Streamlined back office processes leading to reduced costs	£280k by 2018/19	Project management costs. Specialist IT support. Cost of service reconfiguration, restructuring or rationalisation.	£50k

Income Generation and Investment Opportunities

Project	Project Description	Project Deliverables	Benefits	£	Qualifying costs	£
Housing Initiatives (i)	Creation of new income generating assets	Provision of decking on Union Street West car park with potential for residential development on Union Street East car park	Maintain income from parking and sufficient capacity to meet customer needs Generate rental income and/or capital receipts from residential development	£70k p/a	Feasibility study	£45k

APPENDIX A

Housing Initiatives (ii)	Explore options for the development of a Special Purpose Vehicle/Housing company	To enable the Council to invest in residential property to generate revenue returns	Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue	Dependant on number of properties sourced, state of the market, level of returns.	Consultancy costs to advise on delivery options Set up costs	£40k
Property Investment	To invest in property, diversifying the asset portfolio and securing greater returns	Developing an Asset Management Strategy Maximising returns on existing assets Purchase of new investment assets to generate revenue returns Potential joint working with other Local Authorities via a Joint Venture (JV)	Increased revenue returns Diversified portfolio Agile service able to respond quickly to the market	Difficult to quantify at this stage – depends on number of properties sourced, state of the market, level of returns. Minimum expected 2016/17 £250k	Consultancy costs to assist with development of strategy, initial processes, action plan and documentation. Call off support to deliver action plan. Potential requirement for backfill of staffing. Set up costs of JV	£40k
Commercial trading	Developing commercial trading opportunities by setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others)	Develop a cost recovery model for selling services to business, initially within the Environmental Health & Housing service Set up a trading company or other delivery vehicle, as experience is gained and opportunities are identified	Develop a more commercial skillset Build knowledge and experience Increase revenue Use spare capacity Forge better links with business	£50k p/a	Set-up & implementation costs Potential staff backfill Project staffing	£40k

Better Use of Property and Assets

Project	Project Description	Project Deliverables	Benefits	£	Qualifying costs	£
Asset review	Review/consolidation of existing property portfolio	Developing an asset management strategy (links to project above – property investment) Review of existing assets and associated income and costs Divestment of surplus assets	Ensuring asset portfolio is fit for purpose Reducing costs of current portfolio Increasing revenue from current portfolio Streamlining processes	Dependant on number of properties consolidated /divested Minimum estimate £50k	Feasibility work Project staffing costs (or backfill costs) Initial scoping work - identification of assets and associated costs /income	£50k
Co-location Programme	To create an appropriate and effective working environment which secures financial benefit and prepares the Council to meet future changes in services	To take a holistic view of the Council's estate in order to make best use of space available for service provision, letting of office space to third parties and reviewing the potential for redevelopment of Council assets.	Optimal use of Council buildings leading to increased rental income, potential capital receipt, efficiencies from locating services in the 'right' place, service efficiencies from co-locating with other public sector partners	£100k - £200k	Feasibility work Implementation costs Project staffing costs (or backfill) Decant costs	£40k

Organisational Structure

Project	Project Description	Project Deliverables	Benefits	£	Qualifying costs	£
Structural review	Review the functional and organisational arrangements of the Council, identifying a range of possible options for the design of the organisation and the	'Form follows function' A well-designed structure that brings together services/tasks with common aims or processes, creating efficiencies of scale and streamlining processes.	Less duplication More communication and working together for a common purpose Reduction in staffing costs Reduced management	£65k - £300k	Funding the cost of service reconfiguration, restructuring or rationalisation	£50k

	implications of future ways of working		overhead			
--	--	--	----------	--	--	--

Better Procurement

Project	Project Description	Project Deliverables	Benefits	£	Qualifying costs	£
Future delivery of major contracts	To explore new ways of delivering services while maintaining or improving service standards and reducing costs for <ul style="list-style-type: none"> - Waste and Recycling collection - Street Cleansing - Grounds Maintenance - Public Convenience cleaning 	Move towards a more outcomes based approach Better use of technology	Improved customer focus Faster processing of queries, more reactive service Income generation through working in partnership with the contractor Reduced service costs	Savings expected but as currently going through tender process are of a commercially sensitive nature and therefore not disclosed here	Legal expertise Consultants Backfill for staffing project team	£60k
Future delivery of leisure services	To explore new ways of delivering services while maintaining or improving service standards and reducing costs	To provide appropriate quality leisure services linked with wider well-being outcomes, with little or no subsidy from the general tax payer	Reduced service cost Improved well-being of local residents	Yet to be evaluated	Legal expertise Consultants Backfill for staffing project team	£60k

7. Prudential Indicators

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code). The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored each year. The flexible use of capital receipts as set out above will change some of the previously published indicators as set out below:

1. **Estimates of Capital Expenditure:** The Council's planned core capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	9.340	9.302	5.317	1.150
TOTAL EXPENDITURE	9.340	9.302	5.317	1.150

Capital Receipts	5.780	5.977	3.470	(0.037)
Capital Grants & Contributions	2.401	2.575	1.097	0.437
Revenue	1.159	0.750	0.750	0.750
TOTAL FINANCING	9.340	9.302	5.317	1.150

2. **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed "core" capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-7	-5	-5	-5

The ratio is negative as the Council currently has net interest income.

3. **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	4.75	2.67	2.55