

COUNCIL MEETING – 20TH APRIL 2017**AGENDA ITEM NO. 5 (1)****STRATEGY FOR THE FLEXIBLE USE OF CAPITAL RECEIPTS 2017/18**

A report from the meeting of the Cabinet held on 4th April, 2017.

1 INTRODUCTION

- 1.1 In April 2016, the Council set a strategy in order to take advantage of the favourable short-term relaxation of expenditure rules set out in the direction issued by the Secretary of State for Communities and Local Government on the 17th December 2015, relating to the treatment of costs as capital expenditure. Updated guidance on the flexible use of capital receipts was published in March 2016.
- 1.2 The guidance requires an annual strategy to be considered by Council alongside an update on progress for projects approved in previous years.
- 1.3 This report provides an update on the flexible use of capital receipts as approved at the Council meeting 21st April 2016 and sets out the planned strategy for 2017/18.
- 1.4 This Report follows consideration by the Cabinet of the draft Flexible Use of Capital Receipts Strategy 2017/18 (Appendix A).
- 1.5 The Cabinet has approved the new Strategy and recommends it for adoption by the Council.

2 BACKGROUND

- 2.1 In the Autumn Statement 2015, the Chancellor announced changes to the rules for use of capital receipts. For a 3-year period from 1st April 2016, local authorities are able to spend any revenues generated from the sale of fixed assets to fund the cost of improvements to services.
- 2.2 Under normal rules, capital receipts can only be used to fund capital expenditure such as the purchase of capital assets or improvements to existing assets. The new flexibilities enable Councils to use income from the sale of certain assets to fund the short-term revenue costs that support invest-to-save and efficiency projects in order to provide revenue savings in the future.
- 2.3 The new rules support the Council's Medium-Term Financial Strategy and its 8-point plan for achieving financial sustainability. Prior to this, the Service Improvement Fund (SIF) solely supported our 8-point plan (including efficiency measures, invest-to-save projects and new income generation plans). Given the

level of savings required over the medium-term and the number and scope of projects within the plan, it is important to maintain funding for these projects. With the reserves in the SIF declining, the use of capital receipts means that these essential projects can be progressed without putting additional pressure on revenue resources.

3 STATUTORY GUIDANCE

3.1 The Department for Communities and Local Government published its updated statutory guidance on 11th March 2016, which set out requirements for a dedicated strategy document, the timing and content of such strategies and methodology for review.

3.2 The key points from the guidance are as follows:

- The guidance applies from 1 April 2016 – 31 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

3.3 Qualifying expenditure under the guidance is defined as:

'Expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demands for services in future years for any of the public sector delivery partners'.

3.4 It is for individual authorities to decide whether or not a project falls within the guidance criteria and therefore qualifies. Set-up and implementation costs of new processes or arrangements can be classified as qualifying expenditure. On-going revenue costs of those new processes or arrangements will not qualify.

3.5 The guidance includes examples such as feasibility work, setting up pilot schemes, restructuring costs where this leads to on-going savings or service transformation, driving a digital approach to deliver efficient services and setting up commercial or alternative delivery options.

4 FINANCIAL IMPLICATIONS

- 4.1 As qualifying costs are treated as capital expenditure, a variation to the capital programme of £500,000 was authorised for 2016/17 with any residual balance to be used over the remaining period of the scheme. These funds have been fully allocated to schemes, and an update on progress has been included at Appendix A. In order to ensure support for other major transformation projects, a further variation to the capital programme of £300,000 was approved by the Cabinet on 4 April 2017.

5 CONCLUSIONS

- 5.1 Without sufficient funding to support transformation and efficiency, the financial sustainability of the Council becomes at risk. With increasing costs due to inflation and demand pressures alongside reducing central government support, the Council needs to look to its own resources to develop projects that will lead to a net reduction on service costs, whether that be through the development of new income streams or reduction of costs through more efficient ways of working.

6 RECOMMENDATIONS

- 6.1 Members are requested to approve the Strategy for the Flexible use of Capital Receipts 2017/18 (as attached at Appendix A).

P.G. TAYLOR
CABINET MEMBER FOR CORPORATE SERVICES

STRATEGY FOR THE FLEXIBLE USE OF CAPITAL RECEIPTS 2017/18

1. INTRODUCTION

- 1.1 An initial strategy was 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"). This strategy has been updated for the 2017/18 financial year and also details progress made during 2016/17.
- 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 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 between 1 April 2016 and 31 March 2019 are 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

APPENDIX A

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 A receipt of £500,000 was received during 2016/17 for use under the 2016/17 strategy and an additional receipt is estimated to be received in 2017/18 of around £300,000 for use under the 2017/18 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. PROGRESS ALREADY MADE / EXPECTED BENEFITS

- 6.1 Progress made against each project within the original 2016/17 Strategy is contained within table 1 together with an updated estimate of the qualifying costs and the potential future saving. Some of the projects have since been funded within current service capacity or from the Service Improvement Fund meaning that there is no longer a drawdown from the Flexible Use of Capital Receipts for these specific projects.
- 6.2 This has meant that additional projects have been considered during 2016/17 to be funded from the £500,000 capital receipt already set aside. These additional projects are detailed in table 2 together with a short description of the expected benefits of each project, an estimate of qualifying costs and the potential future saving.
- 6.3 Table 3 details new projects to be funded by the additional capital receipt of £300,000, which is expected to be obtained in 2017/18.

TABLE 1 - Projects included within the 2016/17 Strategy (Revised Budget requirement £313.5k)

Efficiency and Transformation projects

Project	Project Description	Project Deliverables	Benefits	Savings (Determined March 2016)	Qualifying costs	Budget Required (Determined March 2016)	Update
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	Projects are underway with a Systems Thinking element to them but are being funded within current services capacity and therefore there is no pull on the flexible use of capital receipts. From the parking review piece, savings of £51k p/a are being generated.
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	This project is evolving and is now named Customer and Digital. Due to the new priorities, work on a new customer contact platform will not take place but instead further development of the 'Love Rushmoor' app is required. Resources have been redirected for this project to be funded from the Service Improvement Fund, there is therefore no pull on the flexible use of capital receipts. Savings in the region of £280k by 2018/19 are still anticipated with £30k from platform savings and £220k from staff savings.

APPENDIX A

Income Generation and Investment Opportunities

Project	Project Description	Project Deliverables	Benefits	Savings (Determined March 2016)	Qualifying costs	Budget Required (Determined March 2016)	Update
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	Phase 1 has been completed with a site appraisal and viability advice. Opportunities for a Joint Venture are being investigated (see new project Table 3). The costs to date of £24,225 are to go against the revised budget of £24.5k and no savings are projected against this initial work.
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	There have been no costs to date however quotes are being sought for external advice on housing market demand and legal; financial; insurance and tax issues. It is anticipated total costs will still amount to £40k and at this stage it is still too difficult to estimate the level of returns.
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	A means of delivery has now been established and has been working well, providing benefits to both the Council and Businesses. The work to date has been funded within current service capacity and it is no longer anticipated that we will pursue setting up a trading company, there is therefore no pull on the flexible use of capital receipts. Income in the region of £30k to £40k p/a is expected from 16/17.

APPENDIX A

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	<p>The Council has acquired 6 properties to date at a total acquisition cost of £15.5m. These properties are generating additional revenue of £490k in 16/17 and £970k p/a from 17/18 onwards. There have been delays with developing an Asset Management Strategy as the initial company appointed did not undertake any work on it for a one year period. Another Contractor has now been instigated to assist with developing a Strategy and this is due for completion in May 2017. It is now foreseen that the level of spend will not exceed £35k.</p>
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APPENDIX A

Better Use of Property and Assets

Project	Project Description	Project Deliverables	Benefits	Savings (Determined March 2016) £	Qualifying costs	Budget Required (Determined March 2016) £	Update
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	The Council is doing an ongoing review of its existing property stock, resourced using existing capacity and therefore there is no pull on the flexible use of capital receipts. The minimum estimate for savings is still anticipated to be £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	The Council is in negotiation with potential tenants and if successful, works associated with the co-location will be funded by the new tenants. There is therefore no pull on the flexible use of capital receipts. Income up to £50k is expected to be realised.

APPENDIX A

Organisational Structure

Project	Project Description	Project Deliverables	Benefits	Savings (Determined March 2016) £	Qualifying costs	Budget Required (Determined March 2016) £	Update
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 implications of future ways of working	'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 overhead	£65k - £300k	Funding the cost of service reconfiguration, restructuring or rationalisation	£50k	The Council has been through the process of assessing applications made under the Mutually Agreed Resignation Scheme. Based upon the level of potential candidates, the estimated cost of severance payments plus associated Legal costs for candidates to seek independent Legal advice, is £154k. The projected savings are not easily identifiable at this stage as it will be dependent on actual take up and consequential service delivery arrangements, estimated at between £100k and £200k 2017/18 and £150k and £250k p/a from 2018/19 onwards.

APPENDIX A

Better Procurement

Project	Project Description	Project Deliverables	Benefits	Savings (Determined March 2016) £	Qualifying costs	Budget Required (Determined March 2016) £	Update
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	The Council has been through the procurement process for the new waste contract. The process is being funded by the Service Improvement Fund, there is therefore no pull on the flexible use of capital receipts. The expected savings are estimated at £600k p/a.
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	The procurement process for the leisure contract has only recently started. Costs are still anticipated to be £60k but savings have yet to be evaluated.

TABLE 2 - Additional projects agreed in 2016/17 (Budget requirement £186.5k)

Efficiency and Transformation projects

Project	Project Description	Project Deliverables	Benefits	Savings £000	Qualifying costs	Budget 2016/17 £	Update
Environmental Services Contract Mobilisation Costs	To successfully implement the new waste contract	Project management of implementing the new contract and relocating to the new depot	Best value from the contract. Good monitoring of delivery against contractual obligations and commitments. Better service to customers resulting in fewer complaints	£600k p/a, savings already identified under the Better Procurement of the Waste Contract detailed above	Project manager; ongoing consultancy; and legal advice	£70k	The Council has only recently selected its successful tenderer. Work on implementing the new contract is therefore only at the initial stage. Projected costs are expected to be £70k and potential savings have already been identified under the Better Procurement of the Waste Contract detailed above.
IT costs associated with the new Waste Contract	A comprehensive IT approach to integrate the client and contractor systems	Customer self-service portal, mobile application and working solution, along with an end-to-end process flow	Ability for customers to self-serve	£600k p/a, savings already identified under the Better Procurement of the Waste Contract detailed above	Portal/ licences/ professional services £30k, mobile App £20k and resources £35k and associated costs with the need for additional software	£85k	The Council has only recently selected its successful tenderer. Work on integrating the client and contractor systems is therefore only at the initial stage. Projected costs are expected to be £85k and potential savings have already been identified under the Better Procurement of the Waste Contract detailed above.
Transformation Programme	Making the best use of technology and improving our service delivery for customers	Streamlined end-to-end processes; mobile working solutions	More efficient use of resources; improved customer experience	Yet to be evaluated	Consultancy to support setting up the Transformation Programme including feasibility work and business case development	£25k	The Council is only at the start of this phase of work, there is therefore no update to be provided at this stage. Anticipated costs are £25k.

APPENDIX A

Income Generation and Investment Opportunities

Project	Project Description	Project Deliverables	Benefits	Savings £	Qualifying costs	Budget 2016/17 £	Update
Digital Advertising	Making better use of existing assets by utilising land for advertising hoardings in order to maximise revenue return	Showcasing local as well as national businesses, and demonstrating the Council's innovative and commercial approach	More efficient use of the Council's assets for generating income	£285k to £430k p/a	Consultancy to support the project	£40k	A feasibility study has been carried out to identify opportunities and income is currently being generated of £10k p/a from digital advertising monoliths. £6.5k is the full extent of expenditure anticipated.

TABLE 3 - Additional projects for the 2017/18 Strategy (Budget requirement £300k)

Income Generation and Investment Opportunities

Project	Project Description	Project Deliverables	Benefits	Expected savings £000	Qualifying costs	Budget Required £000
Pantomime Pricing Review Princes Hall	To understand sales trends, price demand and ticket buying behaviour	Strategic pricing structure	Increased pantomime sales income each year	£5K p/a from 2017/18 and for the next 5 years	Consultancy to undertake the review	£15k
Commercial Trading	Developing commercial trading opportunities by setting up commercial or alternative delivery models	Set up a trading company or other delivery vehicle to deliver services more efficiently and bring in revenue (for example, through selling services to others) and by developing commercial property trading opportunities	Develop a more commercial skillset; Build knowledge and experience; Increase revenue; Use spare capacity; Forge better links with business	Yet to be evaluated	Set-up & implementation costs; Potential staff backfill; Project staffing	£80k
Housing Initiatives (iii)	Explore the options of a joint venture	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	Consultancy advice on how to proceed with a Joint Venture	£25k

Efficiency and Transformation projects

Project	Project Description	Project Deliverables	Benefits	Expected Savings £000	Qualifying costs	Budget Required £000
Transformation Programme Governance	Setting up new governance arrangements and project management support to overall transformation programme	Set up new Transformation Board and associated streams Appoint senior responsible officers, project managers and project leads. Develop improved highlight reporting and control arrangements	Efficient monitoring of progress, clear project scope, improved communication to the organisation, good governance of programme to ensure delivery of savings	Will contribute to delivery of savings indicated throughout the plan	Consultancy to support	£30k

APPENDIX A

Customer Hub	Feasibility and implementation of an expanded customer hub model	Improving/expanding the customer contact platform and self-service portal Decommissioning of legacy systems Further web site redesign	More customer focussed, face to face, telephone and digital approach Better customer journey More efficient processes with less hand-off between departments	£200k - £300k	Set-up & implementation costs; Potential staff backfill; Project staffing Technical/ICT costs	£100k
New service delivery models	Exploration of new models of service delivery within the organisation to include the potential for; <ul style="list-style-type: none"> • More shared services • Outsourcing • More commercial approach 	To explore further opportunities for shared working with other Local Authorities, partnership working with the third sector and the potential for outsourcing	Reduced costs of management overhead, efficiency through removal of duplication, potential for wider business base in some areas of work Possible ICT savings	£35k - £100k	Feasibility work, set-up & implementation costs; Potential staff backfill; Project staffing Technical/ICT costs	£50k

7. PRUDENTIAL INDICATORS

- 7.1 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.
- 7.2 The guidance for the Flexible Use of Capital Receipts requires this strategy to set out the effect of the plans on the Council's prudential indicators, which were initially approved by Council on the 23rd February 2017.
- 7.3 The following table shows the revised indicators after taking account of the capital decisions contained in this report and the effect of the expected revenue savings.

APPENDIX A

<u>PRUDENTIAL INDICATORS</u>	2016/17	2017/18	2018/19	2019/20
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital Expenditure	27.547	13,929	2.026	2.161
	£m	£m	£m	£m
Financing of Capital Expenditure				
Capital Receipts	11.447	4.600	0.500	0.500
Capital Grants and contributions	2.843	3.285	1.331	1.431
Revenue	0.728	-	-	-
Borrowing	12.529	6.044	0.195	0.230
Total capital financing	27.547	13.929	2.026	2.161
	£m	£m	£m	£m
Capital financing requirement as at 31 March	13.9	19.8	30.7	40.4
	£m	£m	£m	£m
Gross debt and the capital financing requirement				
Capital Financing Requirement (measured in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years)	30.7	40.4	39.8	39.0
Total gross debt	15.0	19.5	25.5	24.5
Difference	15.7	20.9	14.3	14.5
	£m	£m	£m	£m
Operational boundary for external debt				
Borrowing	20.0	27.0	30.0	27.0
	£m	£m	£m	£m
Authorised limit for external debt				
Borrowing	22.0	29.0	31.0	30.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total	23.0	30.0	32.0	31.0
	%	%	%	%
Ratio of financing costs to net revenue stream	-8	-6	-4	0
	£	£	£	£
Incremental impact of capital investment decisions on the Council Tax				
General Fund - effect on annual band D Council Tax	0.00	(0.16)	(4.61)	(9.62)