Ashfield
DISTRICT COUNCIL

Report To:	CABINET	**Date:**	20 FEBRUARY 2017
Heading:	THE COUNCIL'S CAPITAL STRATEGY		
Portfolio Holder:	CLLR JACKIE JAMES - CORPORATE SERVICES		
Ward/s:	ALL		
Key Decision:	YES		
Subject To Call-In:	YES		

Purpose Of Report

To update the Council's Capital Strategy, to reflect current priorities, and the need for investment which will benefit the Council's Medium Term Financial Strategy (MTFS).

Recommendation(s)

- **That Cabinet agree the principles of the new Capital Strategy, and note that**
- **The revised policy on Minimum Revenue Provision will be formally considered as part of the Treasury Management Strategy, by Cabinet in March, and**
- **A report will brought forward, also for Cabinet in March, detailing the matrix which will be used to select appropriate potential investment properties, and proposing the governance arrangements which would enable such purchases**

Reasons For Recommendation(s)

In order to use the Council's resources to enhance the infrastructure which is used to provide services, and provide funding for those services to be continued.

Alternative Options Considered (With Reasons Why Not Adopted)

The Council could retain the more traditional model of a Capital Strategy. However given the changed financial climate in which local government operates, many councils are now looking more widely at commercial opportunities. This Strategy gives the Council a wider range of options.

Detailed Information

The Council's Future Plans, and Capital Expenditure

Table 3 below sets out a detailed consideration of the links between the Council's Corporate Plan, Efficiency Plan and this proposed Capital Strategy. All three recognise the importance of being able to use all the tools available to the Council to reduce its net cost and therefore protect public services. This report explores some new potential avenues which may assist in that aim.

Reasons for a Capital Strategy

Capital Expenditure is expensive and time-consuming, and the resources which local government can call on are reducing each year. Councils need a rational mechanism to select and invest in the schemes which are best qualified to meet their strategic aims.

In Ashfield, Capital Expenditure fulfils four key purposes:

- Maintenance and Improvement of Assets
- Improving Services through Technology
- Improving the District's Infrastructure and supporting the local economy
- Strategic Investments to provide income streams

A Capital Strategy should assist an organisation to select the most appropriate schemes for investment, and it should also set out a plan for funding that investment, planning ahead for its receipt and use of Government Grants, Section 106 Contributions, Capital Receipts, and crucially its future Prudential Borrowing requirements from the Public Works Loans Board.

Principles of a Capital Strategy

Each one of the purposes above is set in the context of the Council's MTFS, which identifies the need for £3.8 million of savings over the period 2018/19 to 2022/23. The decline in the flow of external funding flowing to councils (typically for districts, 50% over ten years), means that many councils have looked towards their borrowing powers to assist them to invest in assets which can generate profits for them, and take pressure off the need to make expenditure savings.

Ashfield has adopted a Commercial Enterprise Strategy, and this impacts on the need for capital investment in two important ways:

- The need to equip Council services which are planning to offer their services over a wider range of customers with the plant and equipment needed to be competitive, and

- The need to invest in assets, both commercial and residential, which a number of councils have demonstrated, can be used to create income streams to the General Fund

Use of the Weighted Benefit Model

The Council has developed a Weighted Benefit Model, designed to assess the long term contribution that a proposed capital scheme can make to both the Corporate Plan and the MTFS. This method assess proposed schemes to build or acquire capital assets on a consistent basis, so that their relative contributions to the MTFS and the Council's corporate objectives can be compared. This is particularly useful if not all of the proposed schemes can be afforded. The use of Council capital needs to be seen as an investment model delivering a return on investment preferably both financially and social.

Proposed changes to the policy for Minimum Revenue Provision

Minimum Revenue Provision is the amount which councils set aside to provide a fund for the repayment of loans. The Council's current MRP Policy Statement adopts the following methods as outlined in the Local Government Act 2003:-

Option 1 - The regulatory method, is used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008.
.Option 3, the Asset Life Method, is used for calculating MRP in respect of all capital expenditure incurred on and after 1 April 2008. An equal instalment approach is adopted.

To enable the Capital Strategy to be effective a further method of determining MRP is also being considered, Option 4 the Depreciation Method. The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:
A = Capital expenditure (unsupported borrowing) on asset
B = Total MRP already made against the asset
C = Remaining useful life of the asset
D = Residual Value of the Asset

It is proposed that the Treasury Management Strategy Statement be updated to reflect the option to use the Depreciation Method where it is prudent to do so.

An illustration of the adoption if this policy is outlined below.

The recycling bins in the example below will cost £750k, have a residual value of nil, and have been financed over 20 years, which is their expected life. Therefore, to allow for the eventual repayment of the loan, £37,500 would be charged each year to the Revenue Account, under MRP.

However the hotel, with a value in 20 years' time of at least its value when purchased, incurs no depreciation and therefore no MRP is charged. The principle is that, if the loan needed to be repaid, the asset could be disposed of after 20 years with no loss of value.

Another benefit which other organisations have found is that, although the loan payments remain constant every year, regular rent reviews mean that the asset will make increasing contributions to the revenue account over time.

The table below shows examples of two schemes; the first is the purchase of new bins for enhanced glass recycling (the actual scheme which appears in the Capital programme), and the second is the hypothetical purchase of a hotel in a capital city with a high number of tourist visitors, which is similar to a purchase made by another council. It should be regarded as illustrative only, to demonstrate a principle.

Table 1 below is an extract from the Council's WBM, which will be used to assess the benefits of different schemes. A key consideration is the contribution that these schemes can make to reducing the Council's net annual General Fund expenditure.

	Purchase of new bins for glass recycling	Purchase of a hotel with a full repairing lease in place	Notes
Capital cost	750,000	8,000,000	
Expected life of asset	20		Asset is over 100 years old and likely to be maintained at high standard for many years
Expected residual value of asset	0	8,000,000	
MRP period	20	20	
MRP per year	37,500	0	Because the expected residual value of the asset is forecast to be at least its current value, MRP would not be charged
Interest Rate	2.85%	2.24%	
Borrowing cost in year 1	21,375	179,200	
Additional expenditure - running costs of asset	0	0	No additional expenditure because the asset is let to a company with a full repairing lease in place
TOTAL ADDITIONAL EXPENDITURE	**58,875**	**179,200**	
Savings made by this asset	(109,000)	0	
Income generated by this asset	0	(500,000)	
TOTAL ADDITIONAL INCOME	**(109,000)**	**(500,000)**	
NET EXPENDITURE (INCOME)	**(50,125)**	**(320,800)**	

Summary of the Capital Strategy

The previous Capital Strategy was calculated on the basis of expected commitments to the maintenance or replacement of existing assets, having taken into account Capital Grants and the use of Capital Receipts. This calculated an annual requirement to borrow of £1.74m, or £6.96m over four years. Because of increased capital commitments which are to be funded by loan (principally the refurbishment of the Idlewells Market Hall and the purchase of replacement vehicles for the Council's fleet), this figure has been revised to £7.6m, and the budget and MTFS have been prepared on this basis.

The principles above suggest that if borrowing is used to finance commercial assets, then significant contributions can be made towards the Council's MTFS, which, in generating savings, can be a far more palatable strategy than cutting back essential Council services, to save money. Therefore the table below proposes a revised overarching Capital Strategy amount.

In agreeing the principle of a sum of £10 million to give scope for the purchase of capital assets with the potential to generate income or make savings, this is the first stage of the process to actually acquire such assets.

A report will be brought forward in the near future to set out a matrix for the investment in commercial assets, to set a methodology for how appropriate assets might be selected. This will take account of current good practice being employed by other councils. It will also set out the governance mechanisms needed and the delegations required in order to be able to complete a transaction quickly, once the potential investment has been assessed.

Table 2 – Summary of proposed Revised Capital Strategy 2016/17 to 2019/20

	Existing schemes in the Capital Programme (£m)	New provision for Commercial Investment and large scale Invest To Save projects (£m)	Total Prudential Borrowing Planned (£m)
Planned Prudential Borrowing	7.6	10.0	17.6

This new strategy will provide for borrowing which is within the Council's Prudential Limits, which are discussed in more detail in the annual Treasury Management Strategy, due to Cabinet in March 2017.

Future proposals for commercial capital schemes will be assessed using the WBM, and the implications for both expenditure and income will be assessed at that point.

The above sum of £10m will be revised and updated, depending on the success of the initial projects invested in under this strategy.

Table 3 - Themes of the Corporate Plan

The table below sets out the key themes of the Corporate Plan, and also explains how each theme will contribute to the Efficiency Plan which was agreed in September 2016.

Corporate Plan Theme	Contribution to the Efficiency Plan	Contribution to the Capital Strategy
Health and Well Being – the Council will promote healthy life styles, provide high quality leisure facilities and use its influence among partners to improve the health and well being of the people of Ashfield.	• A review of **leisure provision** will ensure that the Council's future indoor leisure provision consist of centres which are modern, well-maintained and economically viable. • The promotion of **work place health** is contributing to a significant reduction in days lost to sickness within the Council.	• The proposals emerging from the **leisure review** will be evaluated using the WBM in order to establish which proposals can contribute to a long term reduction in the costs of this service. External funding, commercial potential and sustainability will be key factors in the evaluation of any proposed new or improved centres
Housing – the Council will invest to meet the housing needs of the district, enhancing its own stock and working with partners to support the availability of housing stock of the right size, type and quality.	• The closure of the **Arms Length Management Organisation** (ALMO) and the return of its functions to the Council is a significant efficiency for the Housing Revenue Account and the General Fund. This will further streamline management, eliminate duplication, and reduce the Council's spend on office accommodation. • The Council will review its **Local Council Tax Support Scheme** in 2017.	The Capital Strategy will tackle investment in housing from two perspectives: • The long term plan for maintaining and improving the Council's own **housing stock** (6,800 units) will be further developed to ensure that the stock remains viable in a self-financing context over a 30-year trajectory. • The Council will explore commercial routes to **investing in private housing** – high quality new builds to buy or rent – in order to play a more pro-active and commercial role in meeting the district's housing needs.
Economic Regeneration – the Council will work with its partners to attract new and expanded businesses to the	• The Council is making good progress with its **Local Plan**, which it expects to be adopted in 2017. This will	• The Capital Strategy will evaluate potential investment projects using

Ashfield area, and will contribute to wider initiatives through the Local Enterprise Partnership.	set out a blueprint for physical development over the next five years. • Increased development and other economic activity results in an increase in the **Business Rates** yield and increased **Council Tax** and **New Homes Bonus**, all of which underpin the Efficiency Plan. • Ashfield worked closely with Nottinghamshire County Council and the other districts in the County in 2012 to set up the **Business Rates Pool**. By retaining the levy payments within the County, £3 million has been generated to support regeneration initiatives within the County.	the WBM. **Investment in new office, commercial or industrial sites** can improve the district's infrastructure, and bring jobs to the area. However there must be a long term financial benefit to the Council so, as with leisure facilities, external funding and commercial potential will be key factors.
Place and Communities – the Council will work with its partners to ensure a clean and attractive environment and continuing to reduce levels of crime and disorder. It will look to enhance a district which has both an attractive environment and economic advantages.	• The Council is currently enhancing its **office space** to enable the Council Community protection, Environmental Health and Private Sector Enforcement teams to work alongside the Nottinghamshire Police. This **Integrated Service Hub** will both save money and result in a more effective service to residents. • Working closely with Nottinghamshire County Council, Ashfield has improved its **recycling rate from 35% to 50%** in 2016. It has achieved this by introducing a free garden waste service in conjunction with a smaller residual waste bin. This improved recycling rate produces cashable savings for the County Council, with whom the Council is now exploring ways to enhance the **recycling of glass**, which could lead to further savings, and environmental benefits.	• Opportunities have been identified where **investment in recycling** facilities can produce long term environmental benefits and cost savings. Again, each potential scheme will be evaluated using the WBM. • The Capital Strategy will consider options for the long term maintenance and improvement of our **parks and open spaces**

	• Ashfield and its partners have pioneered the highly successful **Multi-Agency Service Model**, in a deprived urban area of the district with a high volume of poor quality private sector housing.	
Organisational Improvement – the Council will continue to develop as an innovative, values led, pioneering organisation. This theme offers significant opportunities to reduce the Council's net General Fund budget, without reducing the service to residents.	• The Council is investing in a **Commercial Enterprise Strategy** which aims to build on the Council's strengths by offering services to a wider range of customers on a more commercial basis. The Council's headquarters are being re-modelled to facilitate **co-location** with two public sector partners (Police and DWP) at a commercial rent, with the capital work funded by those partners. • Work is underway to develop a range of commercial offers, where existing teams and assets, with the appropriate skills and equipment, can offer services more widely and **generate income**. Pest Control and Trade Waste have successfully begun to operate in this way, with a range of other commercial initiatives at the planning stage. • The Commercial Enterprise Strategy also encompasses **strategic investments**, where capital investment can support the Council's priorities, and also make a financial return. • The Council will further develop its existing programme of **service reviews**, ensuring that services are designed around customer needs, and are easy to use and	• Capital investment will be needed to complete the Council's work on the **rationalisation and sharing of office facilities** • The Capital Strategy will address all aspects of the Council's **commercial agenda**, from the investment in plant and equipment needed to offer a wider range of services to more customers, to the evaluation of strategic out-of-area investment proposals, which can generate income to the Council over a long period. • **Digital transformation** will only be possible with significant investment in the IT tools which make services more accessible and can underpin a more commercial approach. The Capital Strategy will need to assess how improved IT can result in cost reductions and efficiency gains in the future. • Receipts from the sale of **surplus assets** will contribute towards the funding of the overall Capital Programme, so the Capital Strategy

	accessible for residents. Savings will be generated by eliminating waste and duplication. • A programme of **digital transformation** is underway, which will improve access to the Council's services for residents, and reduce paper-based clerical systems in the back office. The ability to receive and pay Council Tax bills on line, an electronic Case Management System for the Legal Shared Service, and the introduction of Modern.Gov for agenda management are examples of these initiatives. • A thorough review of the **Council's assets**, linked to the identification of sites for the Local Plan, is being undertaken. The Council is also engaged in the One Public Estate programme. Under-used assets will be considered for sale or alternative, more efficient uses. • The way in which the Council works when **engaging** with local communities will also be reviewed, to ensure that we are effective when involving local people in Council decisions. • Members have agreed the findings of an Independent Review Panel which has reduced specific **Members' Allowances**, and has built in a performance element to Members' remuneration. • The Council's **shared services** programme continues to develop. Four services are shared with Mansfield District Council, and most recently the	needs to include a realistic projection of the likely value of these sales over the medium term.

	Council has joined the Central Midlands Audit Partnership for Internal Audit services, which is hosted by Derby City Council.	

Implications

Corporate Plan:

The links to the Corporate Plan are set out above.

Legal:

The purchase of commercial capital assets to generate income will be carried out within the Council's existing powers set out in legislation.

Legal Services will contribute to the due diligence carried out on each occasion that an investment opportunity is explored.

Finance:

This report is effective from 1 March 2017 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The provisions of this report are designed to provide savings for the Council's MTFS
General Fund – Capital Programme	This report sets new guidelines for the future selection of capital projects.
Housing Revenue Account – Revenue Budget	The principles of this report have relevance to the HRA, although at this stage MRP is not a consideration for the HRA
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Human Resources / Equality and Diversity:

None relevant to this report

Other Implications:

None

Reason(s) for Urgency (if applicable):

N/A

Background Papers

Financial Ledger and previous capital strategies and programmes

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