

READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF RESOURCES

TO:	COUNCIL		
DATE:	26 June 2018	AGENDA ITEM:	9
TITLE:	UTILISATION OF CAPITAL RECEIPTS TO PUMP PRIME SAVINGS DELIVERY, SERVICE TRANSFORMATION AND MANAGE DEMAND		
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Appendix 1 Capital Receipts Strategy

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Council agreed its Medium Term Financial Strategy 2018/19 – 2020/21 in March 2018. It identified the need to deliver revenue savings and service improvements totalling £40.373m over the period. A Delivery Fund totalling £14.250m was also identified to facilitate their delivery. This report updates members on the governance arrangements being put in place to manage the capital receipts strategy necessary to pump prime specific savings and service improvement projects.
- 1.2 Bids by service areas against the Delivery Fund have been received totalling £13.576m and work is ongoing to review business cases to ensure they are only approved where they offer value for money and meet required criteria.

2. RECOMMENDED ACTION

2.1 That Council:

Notes the governance arrangements being put in place to deliver the savings and service transformation as set out in the Council's agreed Medium Term Financial Strategy and agrees the associated Capital Receipts Strategy (attached at Appendix 1) required to facilitate delivery.

3. POLICY CONTEXT

- 3.1 Members agreed a Medium Term Financial Strategy (MTFS) in March 2018 that set challenging savings targets for the coming three years amounting to £40.373m. The scale and front end loading of these cost reductions requires, as identified in the report to Council, significant investment up front in order to facilitate their implementation and generate the required savings and service improvement.
- 3.2 Ordinarily much of the cost of delivering these savings and service improvements would not be eligible to be capitalised. However, to assist local authorities in investing in long term efficiency and improvement initiatives, the Minister for Housing Communities & Local Government issued a Direction on 6 February 2018 giving local authorities the continued freedom to use qualifying capital receipts from the sale of their own assets to help fund the revenue costs of transformation projects and savings delivery. Specifically the Direction requires that expenditure:
- 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 demand for services in future years for any of the public sector delivery partners;
 - is properly incurred for the financial years that begin on 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019, 1 April 2020 and 1 April 2021; and
 - that expenditure treated as capital expenditure in accordance with it only be met from capital receipts,
- 3.3 As part of the MTFS, the budget setting process identified a capital receipt backed Delivery Fund with a total value of £14.250m over the period 2017/18 to 2020/21 to fund the pump-priming costs of delivering the aforementioned ongoing savings (£40.373m).
- 3.4 A gateway review process is in place to ensure that all expenditure against the Delivery Fund is validated and approved to ensure it represents value for money, cannot be contained within existing general service budgets and falls within the definition of the Direction, and hence can be legitimately capitalised.
- 3.5 In light of the recent difficulties faced by Northamptonshire County Council (NCC) external auditors are increasingly likely to scrutinise any expenditure local authorities charge under this Directive. Failure to comply with the conditions of the Direction could result in such expenditure having to be charged back to the revenue budget.
- 3.6 The Government inspection team sent into NCC found that, amongst other failings, significant amounts of general running costs had erroneously been charged to capital under the banner of being “transformational”. In addition, the pre-requisite requirement to seek Full Council’s approval to agree a suitable strategy and identify the specific items to be capitalised had not been sought. These findings are likely to feature more heavily in the general guidelines issued to external auditors for the coming year.

4 Use of the Delivery Fund

- 4.1 Each Directorate has written a Delivery Plan, setting out the individual savings proposals within their area and identifying any associated pump prime funding to facilitate delivery. A Corporate Programme Board reporting into the Corporate Management Team (CMT) and

subsequently, on a quarterly basis, to the Policy Committee has been established to oversee the delivery of the eight key workstreams. These workstreams will be set up as Programme Boards supported by multi-disciplinary teams. They and their CMT sponsors are as follows:

- Adults Transformation Seona Douglas
- Assets Alison Bell
- Children's Company Peter Sloman
- Children's Transformation Kim Drake
- Commercialisation Jackie Yates
- Cultural and Leisure Trust Alison Bell
- Digital Futures Jackie Yates
- Transport and Parking Alison Bell

4.2 To date, the value of calls against the Delivery Fund to support specific projects totals £13,576m. They are summarised in Table 1 below. A schedule of all proposed projects, together with the investment required to achieve delivery and the basis for capitalisation in accordance with the Direction is attached at Appendix 1.

It should be noted that the schedule includes some contingency elements which may or may not prove necessary. It should also be noted that calls against the Delivery Fund fall predominantly in 2018/19 and 2019/20.

Table 1. Calls Against The Delivery Fund

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	TOTAL £000
DOR	1,149	1,888	1,625	1086	5,748
DCEEHS	100	1,684	1,452	-	3,325
DACHS	709	1,518	685	250	3,192
DENS	108	821	473	-	1,401
TOTAL	2,095	5,911	4,234	1,336	13,576

N.B. The Resources Directorate (DOR) line includes all corporate programme support.

4.3 The Chief Executive, together with the Director of Resources and the Head of Finance will continue to operate a gateway and approval process to ensure that all funding released from the Delivery Fund has a sound business cases; offers value for money, will facilitate savings delivery etc. and cannot be funded from within existing service budgets.

4.4 Funding of this quantum (if all bids are ultimately approved via the gateway review process) would be from £13.595m of flexible capital receipts.

4.5 The ability to fund such capitalisation is dependent on relevant capital receipts being available (back to back HRA receipts are not eligible). The nature of the Direction enabling the Flexible Use of Capital Receipts does not allow for expenditure in any one year to be temporarily funded by borrowing in advance of future capital receipts.

4.6 Table 2 below shows that the Council should have sufficient qualifying receipts available to resource the Delivery Fund provided that in year receipts are realised as originally projected. Officers will keep receipts realisation under review throughout the year to ensure that expenditure does not exceed funding.

Table 2. Forecast of Qualifying Capital Receipts

	2017/18 (£m's)	2018/19 (£m's)	2019/20 (£m's)	2020/21 (£m's)
Available Receipts b/f from Apr '12 to Mar '16	12.3	-	-	-
Equal Pay Costs	(12.3)	-	-	-
Balance c/f	-	-	-	-
Available Receipts b/f from post Mar '16	1.0	5.1	6.6	5.9
Anticipated Receipts in Year	10.8	8.1	4.5	0.5
Equal Pay Costs	(3.7)	-	-	-
Delivery Fund Use	(2.1)	(5.9)	(4.3)	(1.3)
Other Use	(0.9)	(0.7)	(0.9)	-
Balance c/f	5.1	6.6	5.9	5.1

N.B. The 2017/18 column is shown for completeness and includes the estimated balance of outstanding Equal Pay settlements which have been accrued for in 2017/18.

- 4.7 It is feasible that the Council's Capital Receipts Strategy may need updating during the year. For example, the Children's Company (Better Futures For Children) may wish to amend some of the current savings proposals agreed as part of the MTFs on the basis that the Board's experience is greater transformation is more likely by focusing on other areas, the costs/savings estimated at the time the budget was set prove significantly different and hence either additional funds or savings need to be found, or simply, other opportunities arise. If this is the case, a revised Capital Receipts Strategy will be presented to Council for consideration and if approved, subsequently reported to the Ministry for Housing, Communities and Local Government.
- 4.8 The Policy Committee will receive regular reports on progress with savings delivery and use of the Delivery Fund as part of the Council's quarterly financial reporting.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The proposals contained in this report are aligned with the following corporate priority:
To remain financially sustainable to deliver service priorities

6. COMMUNITY & STAKEHOLDER ENGAGEMENT

- 6.1 Not relevant to this report.

7. LEGAL IMPLICATIONS

- 7.1 The Council has a duty to ensure that any costs associated with the delivery of future ongoing savings or service improvements are included in an appropriate strategy that has been approved by Full Council. This was achieved by its inclusion in the 2018/19 Budget Setting Report.

7.2 The Council has a duty to properly account for its revenue and capital expenditure. The provisions set out in the Direction allow the Council to charge certain costs that deliver future ongoing savings and service improvement to capital (where financed by qualifying capital receipts)

8. EQUALITY IMPACT ASSESSMENT

8.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.2 There are no equality issues arising directly from this report.

9. FINANCIAL IMPLICATIONS

9.1 The Council's MTFS is predicated on the ability to deliver significant savings over the following three years totalling £40.373m. This quantum is a challenging target and front end loaded offering little scope for slippage in delivery.

9.2 Essential to the successful delivery of the savings and associated service transformation is the availability of pump prime funding to access additional capacity and skills. The Delivery Fund identified and agreed by Council of £14.250m facilitates this.

9.3 The ability to fund the necessary change and improvement costs requires sufficient capital receipts. Realisation of anticipated receipts will be closely monitored as it is not possible to temporarily fund these costs by borrowing in advance of qualifying receipts being received in future years.

9.4 Recent high profile publicity on failure to comply with the requirements surrounding the flexible use of capital receipts to fund service transformation and savings are likely to result in greater scrutiny by auditors. It is therefore essential we continue to review costs to make sure they can justifiably be financed from capital receipts.

9.6 The Council's Minimum Revenue Provision (MRP) Policy allows for surplus capital receipts to be used to repay internal debt and thus reduce the General Fund's Capital Financing Requirement (CFR). The reduction in the CFR has a revenue impact in so far as the amount repaid reduces pound for pound the MRP charge to revenue in the year the repayment is made.

9.7 The use of Flexible Capital Receipts to fund savings and transformation (i.e. those receipts generated and available to the General Fund since 1st April 2016) reduces the receipts available to reduce the CFR, and could be seen as an opportunity cost to the General Fund. However, were those receipts used to fund the CFR they would not be available to deliver transformation and on-going savings.

9.8 The short term impact on the General Fund of applying capital receipts under the freedoms granted by the Flexible Use of Capital Receipts Direction is therefore net nil, i.e.

the opportunity cost of not reducing MRP by applying capital receipts to reduce the CFR and lower MRP is directly offset by the savings of change costs which would otherwise have been charged to revenue. The overall CFR remains unaltered as does the net cost to revenue (MRP and Change Costs combined).

10. BACKGROUND PAPERS

None

Capital Receipts Strategy
Pump Priming Savings Delivery, Service Transformation and Demand Management

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DOR	CSS2-B Housing Benefit Overpayment Recovery	345	Housing Benefit Overpayment Recovery Officer	122	12	54	56	
DOR	Capacity and leadership to deliver change and savings across programme as well as delivery of specific savings in cl. CSS12-C: Christmas Closure CSS10-C: Increased use of Apprenticeship Levy to fund training	500	Head of HR	366		120	122	124
DOR	Capacity and leadership to deliver change and savings across programme as well as delivery of specific savings. Incl. CSS39-A Contract Management Savings	1,050	Head of Procurement	366		120	122	124
DOR	Service restructure and reconfiguration	Transform Service Delivery	Recruitment Costs	42	42			
DOR	Supporting delivery of directorate savings and improving Accounts Payable processes	Transform Service Delivery	Strategic Business Partner - CSS	103		68	35	
DOR			Accounts Payable Assistant	27		27		
DOR	Process improvements and more efficient accounts production	Reduce Cost	CIPFA Big Red Button	19	19			
DOR	Improve Corporate Debt Collection - centralisation of invoices	Transform Service Delivery	Resource to Improve Corporate Debt Collection - centralisation of invoices	96	32	32	32	
DOR	CSS13-A Digitisation - cross cutting savings and redesign of council-wide services	490	Firmstep developer x2	92		92		
DOR	Service restructure and reconfiguration	Transform Service Delivery	SOLACE Recruitment Fees For Future Finance Function	32	32			
DOR	CSS1-B: Engagement of transformation partner to drive process efficiency and cost reduction in parallel with market testing of service CSS11-C: Revenues and Benefits market testing	954	External Support to undertake Market Testing (outsourcing) of the Revenue and Benefits Services	115	41	74		
DOR			Additional legal and TUPE advice	20		20		
DOR			Associated project costs, supplies and services	10		10		
DOR	CSS45-C Cost of Financial Analysts for two years to support commercialisation work	Transform Service Delivery	2 Finance Analysts	306		116	94	96
DOR	CSS4-C Corporate Approach to Reducing Fraud	196	IT Costs	25		25		
DOR			Contingency	20		20		
DOR	CSS43-C Management and Staffing Review	592	Organisational design and change support	50		50		

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DOR	Working across Corporate Programme	Supporting all savings delivery	Corporate Programme Manager	275	130	72	73	
DOR	Working across Corporate Programme	Supporting all savings delivery	National Management Trainee allocated to programme	87	18	34	35	
DOR	Legal support to deliver Corporate Programme and associated savings	Supporting range of savings in the programme	Contracts Solicitor	55	2	26	27	
DOR			Employment Solicitor	26	1	12	13	
DOR			Conveyancing/Contracts Solicitor	47		23	24	
DOR	HR support to deliver Corporate Programme and associated savings	Supporting range of savings in the programme	HR Support	20	20			
DOR	Working across Budget development and MTFS	Supporting range of savings in the programme	Finance Director	100	100			
DOR	Accounts Payable process improvement	Transform Service Delivery	Finance Support	27	27			
DOR	CSS39-A : Contract Management Savings	3,050	V4S Procurement Consultancy Support. Payments due as percentage of savings delivered	400	100	150	150	
DOR	Improvements to Electronic Social Care Record and Reporting (MOSAIC) and provision for improvement of other IT systems over term of Programme	orm Service D	Reporting and Performance	225	225			
DOR			Senior Consultant to act as System Owner	91	91			
DOR			Process review and MOSAIC improvement for Children's Services	23	23			
DOR			Programme Management	20	20			
DOR			Early Help Implementation	5	5			
DOR			Interim reporting post in Children's Services	43	43			
DOR			Corporate Systems Owner	107	91	16		
DOR			Finance Specialist	115	75	40		

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DOR			Project Manager on Business Objects Implementation	16		16		
DOR			Adult's Business Objects Implementation	34		34		
DOR			MOSAIC & FUSION Commitments Interface - implementation costs	11		11		
DOR			Business Objects Developer	35		35		
DOR			Provision for application management improvements in other systems (includes. 18/19 itrent review)	200		100	100	
DOR	Capacity to support delivery of change and savings across programme	Transform Service Delivery	Capacity and leadership to deliver change and savings across programme	276		92	92	92
DOR	Capacity to manage and support HR and workforce change associated with Corporate Programme	Transform Service Delivery	HR Capacity	450		150	150	150
DOR	Contingency for capacity to manage and support Corporate Programme of Change as delivery vehicle for £40m savings and projects to ensure transformation to underpin financial	Transform Service Delivery	Managing Change Contingency	1,250		250	500	500
DCEEHS	Working across workstream of Corporate Change Programme to deliver savings and transformation	Supporting all savings delivery	Programme Manager	188	52	68	68	
DCEEHS	DCEEHS18-A Creation of Access to Resources Team	1,000	Senior Commissioner	98	48	50		
DCEEHS	DCEEHS2-C Review of Continuing Health Care (CHC) funding for children. Investment in resource required - fixed term Social Worker for 24 months to assess all cases and on going Business Support in Access to Resources Team	300	Social Worker & Business Support	128		64	64	
DCEEHS	DCEEHS5-C Increase capacity of local 'under 20 mile' placements for Looked After Children (LAC)		Programme Manager	125		62	63	
DCEEHS	DCEEHS9-C Revise under 5 offer to make best use of early years and childrens centre provision. Generate income or reduction in staff	3,576	Project Manager	55		55		

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DCEEHS	DCEEHS5-C & DCEEHS9-C Reducing LAC Costs ad Changing the under 5 offer		Pre-Birth Team	253		126	127	
DCEEHS	DCEEHS10-C: Design and implement a Reading supported lodging scheme either in house or with a local provider to reduce costs of supported lodgings Also linked to DCEEHS4-C: Increase Reading Borough Council foster carers	566	Project Manager x 2	220		110	110	
DCEEHS	DCEEHS11-C Option 2 Full cost analysis to determine best use of Pineroft/Cressingham	500	Project Manager	125		62	63	
DCEEHS	DCEEHS05-B: Current level of additional investment will no longer be required following delivery of Improvement Plan	500	Recruitment and Workforce & Management Training	500		325	175	
DCEEHS	These resources are connected to Children's transformation and the following savings: DCEEHS12-A Early Help: Set a target and generate additional income from schools DCEEHS13-A: Review support function for admissions to increase the online/digital support and facility							
DCEEHS	DCEEHS14-A: Review to redesign the Early Years offer DCEEHS21-A: Stop subsidising school contracts with Berkshire Health Care trusts							
DCEEHS	DCEEHS29-A: Pineroft Residential Unit - Generate additional income as a result of selling a residential placement to other local authorities							
DCEEHS	DCEEHS31-A: Reshape the family support offer in line with the Findings of the transformation project are being led by IMPOWER, a company who work							
DCEEHS	Reduction of DSG deficit and improve commissioning of High Needs and LAC placements							
DACHS	Resources used for the facilitation of the delivery of the Programme wide savings. Directly linked to the following savinas:							
		5,111	Professional standards, number Quality Assurance, partner liaison: Threshold Management	374		186	188	
			Social work, casework reduction project: Team manager	153		76	77	
			Social work, casework reduction project: Social Workers	537		263	274	
			Social work, casework reduction project: Business Support	330		162	168	
		Managing demand	SEND Commissioner	150		75	75	
			Strategic Lead for Transformation	245	49	98	98	

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DACHS	DACHS28-A:Better Care Fund-Minor Adaptations	979	Project Support	17	17			
DACHS	DACHS29-A:Financial Realignment DACHS30-A:National Insurance Underspend Also responsible for DACHS12-C:Transformation focused staff funded		Programme Officer	75	15	30	30	
DACHS	DACHS 2-C: Changes to Adult Social Care Front Door DACHS27-A:Group Home Rental Increase Also supports delivery of CSS Digitisation savings and coordination of DACHS32&33-A:Review and Right Sizing Care Packages & Stretch Targets	432	Transformation Project Manager	192	62	65	65	
DACHS	DACHS22-A:Transformation of wellbeing DACHS31-A ASC Restructure	1,101	Transformation Project Manager	159	51	54	54	
DACHS	DACHS16-A:Effective Utilisation of Extra Care DACHS17A:Learning Disabilities (Operations Team) DACHS23-A:Development of Home Care DACHS20-A:VCS Development and Commissioning. <i>This resource also supports delivery of</i>	837	Transformation Project Manager	169	61	54	54	
DACHS	DACHS25&26-A:Deputies-Review the charging policy in line with the Court of Protections Remuneration fees DACHS34&35-A & 1C FAB Team Fees & Charges & Stretch Target DACHS5-C:Increased usage of Assistive Technology and Equipment DACHS7-C:Increased usage of Direct Payments	1,370	Transformation Project Manager	162	54	54	54	
DACHS	DACHS32&33-A Review and Right Sizing Care Packages & Stretch Targets	1,300	Social Workers X6 (S117, LDX2,MH, OP, PD)	818	350	468		
DACHS	DACHS3-C:Reducing Adult Social Care contracts spend	1,200	Commissioning Capacity at Senior Level	240	80	80	80	
DACHS	ASC Mobile Working	Transform Service Delivery	Adult Social Care mobile (devices)	80		80		
DACHS	DACHS4-B:Review of alternative delivery models for Public Health	430	Public Health Specialist	30		30		
DACHS	DACHS1-B:Delivery Models for Commissioning, Prevention & Quality Services	800	Contingency for consultancy advice for service shaping	200		100	50	50
DACHS	Informs all commissioning projects to ensure demand is understood and markets are shaped accordingly	Managing demand	Specialist Needs Analysis	30		30		

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DACHS	The resource supports restructures. wider remodelling of the Workforce, and learning & development. Associated savings: DACHS8-C: Commissioning Team Realignment DACHS9-C: Implementation of Business Support restructure DACHS10-C: Locality Team Realignment	562	Workforce consultancy & Training Programmes	500		300	100	100
DACHS	DACHS21-A: To review the operation of the Willows and consider maximising step down bed opportunity to generate	1,545	Market shaping consultancy, Project	275		75	100	100
DACHS								
DENS	Working across workstream of Corporate Change Programme to deliver savings and transformation	Transform Service Delivery	Project Officer	51	9	21	22	-
DENS	DENS28&35-B: Review of waste collection delivery models. Also connected to DENS28-A: Waste Operations-optimising collection routes to reduce number of rounds, generate additional income by increasing trade waste customers DENS36-A: Increase Trade Waste Collection and Disposal service turn over by 100% (£650,000pa to £1.3m)	1,544	External procurement and contract consultancy, Round scheduling costs, specialist contract bidding consultants, Legal support, Set up contract delivery unit, Administration resource, Contract manager costs, Procurement of IT systems, Introduction of revised collection	200	54	95	51	-
DENS	DENS54-B (DENS25-C) Review option of trust model for Arts	250	Consultancy costs	300	-	150	150	-
DENS	DENS5-A Maximising Income from the Town Hall & Museum	220	Consultancy support to provide commercial advice on business plan and associated staffing structures to maximise income following building re-configuration	30	-	30	-	-
DENS	DENS4-C, 5-C, & 6-C Review existing Parking Permit Charges	309	Comms Support, IT Support	50	-	50	-	-
DENS	DENS34-C Extend residents parking permit areas.	300	Consultant support	300	-	150	150	-
DENS	DENS42-C Introduce Bus Lane Enforcement on Kings Road and Forbury Road bus lanes	100	DLO support to introduce new parking schemes	70	-	70	-	-

Delivery Fund (use of Capital Receipts)				Forecast use of Capital Receipts (£000's)				
Dir	Savings/ Transformation Area	Savings (£000's)	Resource	Total	17/18	18/19	19/20	20/21
DENS	DENS59-C Make theatres break even through working with other operators	150	Independent consultants to market test (establish feasibility / business case)	25		25		
DENS			Project management (consultant) of procurement process (if it goes ahead based on 1st stage)	50			50	
DENS	DENS24-C Alternative delivery models - identify and prioritise those services that are most likely to yield a significant saving with the 3-year MTFs period.	1,200	Specific requirements and resources to be confirmed	250	20	180	50	-
DENS	DENS33-C Extend houses in multiple occupation (HMO)/private rented sector (PRS) Licensing	40	New IT system (£25k), required if discretionary regime needs to be introduced (£50k)	75	25	50	-	-
				13,576	2,095	5,911	4,234	1,336