

# WEST DUNBARTONSHIRE COUNCIL

## Report by the Executive Director of Housing, Environmental and Economic Development

Council: 29 June 2011

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**Subject: Securitisation - Options for Investment**

### **1. Purpose**

- 1.1** The purpose of this report is to inform the Council of the investment projects which have been developed to outline business case stage which would benefit the Council by improving the delivery of its services and/or revenue costs and could be funded from either the existing Council's General Services Capital funds, the Council's Modernisation Fund, Spend to Save Budgets and/or monies raised through the Council's Securitisation Project.
- 1.2** This report also seeks Council approval to develop these projects into detailed business cases which would be submitted to Council for consideration at the end of this year.

### **2. Background**

- 2.1** On 26 January 2011, the Council agreed to develop a detailed business case with an alternative business model and subsequent fundraising proposal in relation to securitising the Council's non-operational property portfolio. The Council also agreed to invite the investment market to put forward their best terms by way of a funding competition to provide debt finance by September 2011. The expectation is that this funding competition will raise in the region of £35m to be paid back over a period no longer than 25 years. In addition at the same meeting, the Council noted that a report would be submitted to the Council meeting in June 2011 comparing and assessing options to spend the £35m raise through the Securitisation Project. It was subsequently agreed that the general services capital budget for 2011/12 should also be considered as a potential funding route for any potential projects developed and highlighted within this paper.

### **3. Main Issues**

- 3.1** Both the feasibility and outline business case identify the suitability of our non-operational portfolio in raising a significant sum of finance - £35m, through the successful securitisation of these assets with a selected financial institution.

- 3.2** Following the Council meeting in January 2011, senior officers met to discuss and identify potential projects which would improve the Council's services to the community and may also provide better value for money and reduce revenue costs in the longer term. Following an ideas workshop, 13 different projects were identified as having potential to meet the criteria set out above.
- 3.3** A lead officer was identified for each of the projects and a short-life support team was put in place to work with the lead project officer to develop each idea to an outline business case standard.
- 3.4** Each Project Team was given 6 weeks to research their project idea further and to develop a robust outline business case for the project and the financial investment requested. Following the submission of each of the 13 projects, a Challenge Panel was formed to consider the merits of each of the project submissions. Each Challenge Panel was chaired by an Executive Director and also comprised other Heads of Service and Senior Managers. An assessment criteria was developed in order to assist the Challenge Panels to score the projects in a consistent fashion. The criteria included Financial Benefits; Other Benefits; Risks and Cost of Doing Nothing. The criteria can be seen at Appendix 1.
- 3.5** The Project Teams were invited to present their project to the Challenge Panels and following a discussion, the Challenge Panel were then able to assess and score each project which was submitted. A notional assessment score of up to 70 points was available for each project.

### The Projects

- 3.6** The identified projects and their individual scores were as follows:

	<u>Points Awarded</u>
SP/1 Office Rationalisation)	37
SP/1A Depot Rationalisation)	
SP/2 Care Homes for Older People	39
SP/3 Core IT Network Infrastructure	25
SP/4 Leasing of ICT	28.5
SP/5 Integrated Out of Hours / CCTV Facility	37
SP/6 Web Site and Contact Centre Development	44
SP/7 Energy Savings - Wind Turbines	47
SP/8 School Estates	24
SP/9 Kilpatrick Secondary School	41
SP/10 Debt Repayment	(Not Scored) *
SP/11 Fleet	27
SP/12 Street Lighting	34
SP/13 Out of Area Placements	8

*\* Debt Repayment was not scored through the evaluation assessment process as the proposal was not focussed on delivery of services but on the management of existing debt. This potential use of this option will require further work on options to implement it and will depend on future decisions of the Council. Therefore the option is still available to Members and the outline summary of this Business Case and all other Business Case Summaries are attached at Appendix 2.*

### 3.7 The projects broadly fall into 3 categories:

- **Enablers** - those things that have to be done to facilitate some wider change. Projects which fall into this category include:

Core IT Network Infrastructure;  
Leasing of Information Communication Technology; and  
Web Site and Contact Centre Development.

These projects are key to enabling our change agenda to progress. They will enable the Council to further develop and transform how it provides and delivers its services and are critical to the successful implementation and delivery of our Transformational Projects.

- **Transformation Projects** - the Council's overall strategic priorities moving forward and assist in reducing revenue burdens.

Projects which fall into this category include:

Office Rationalisation (including Depots);  
Care Homes for the Elderly;  
Integrated Out of Hours / CCTV Facility;  
Energy, Wind Turbines;  
School Estates; and  
Kilpatrick School.

- **Must Dos** - areas that without investment will continue to deteriorate and over time represent a reduction in service and undermine key priorities.

Projects which fall into this category include:

Street Lighting; and  
Fleet.

### 3.8 Two other projects make up the 13 projects submitted for assessment. These include:

- (i) **Debt Management** which identified a number of ways in which the potential investment from Securitisation could be used to reduce debt payments on other loans and as stated previously, was not scored, and as stated at 3.6 above any use of this option will depend on future decisions of the Council; and

- (ii) **the Out of Area Placement** project which looked at the potential of the Council putting in place its own infrastructure to look after individuals who need to be housed in a protected and supported environment. However, after carrying out additional research, it was felt that this project would not provide sufficient revenue savings in the long-term and was not a viable proposition and has not been taken forward for Council's consideration.

### Investment Requirements

- 3.9** Appendix 3a highlights, in summary, an outline of the phasing of capital expenditure required to implement each of the projects. Appendix 3b summaries for each project an outline of the expected net revenue costs or savings expected to be generated over a 25 year period. The required initial investment figure to implement all projects identified is £56,789,000. Other investment costs identified in Appendix 3a which relate to equipment refreshes in the future are assumed at this stage to be funded from outwith the Securitisation Fund.
- 3.10** The projects have been assessed as generating net revenue savings have been assessed as generating cashable savings and these are set out where relevant in Appendix 3b. The exception to this is Project SP/6 - Transformation of WDC Web and Contact Services, which has identified both cashable and non-cashable revenue savings. Figures quoted in Appendix 3b of the report only highlight the cashable revenue savings.
- 3.11** As stated above, Appendix 3b identifies those projects which are expected to generate significant savings over 25 years compared to the financial investment required. The appendix also highlights those projects which require significant financial investment but are not able to secure similar revenue savings over the 25 year period.
- 3.12** The revenue effect of implementing all of the projects identified varies throughout the 25 year period. Due to initial revenue costs of some projects and those projects that do not generate savings (typically ICT enabling projects) along with the lead-in time for the building works for those projects expected to achieve savings, the first two years see a revenue cost. Thereafter efficiencies begin to phase-in and the net revenue position expected going forward is shown in Appendix 3b. From year 3 the net saving to the general services revenue account is expected to be £1,906,000 and this gradually increased until year 10 when the savings become almost steady until year 25. The ongoing net revenue effect identified by the business cases is a saving of £2,355,000 from year 10. This figure rises very slightly due to three projects expecting current costs to increase or income streams to increase on an ongoing basis, and by year 25 this saving increases to £2,419,000.
- 3.13** As noted in 3.9 above, the projects identified are expected to cost more than the expected available Securitisation Funds. In addition, as noted at 3.11 not all projects bring significant financial benefits, indeed some will generate an ongoing revenue cost. As the securitisation process will remove an income

stream of around £2.703m per annum from the Council it is critical that consideration is given to identifying options which allow this income stream to be recovered.

It is recognised however that Council may wish to also consider certain projects which enable the transformation of business, such as ICT projects, Schools Estate and Office Rationalisation.

### Funding Sources

- 3.14** Due to the value of initial investment of the current identified projects being significantly higher than the expected Securitisation Funds it will be necessary, at a future point, for alternative funding sources to be identified to allow them to proceed. Appendix 3a identifies an example of how this may work.
- 3.15** Options exist in relation to how the identified projects are funded and the expected Securitisation Fund is not the only source of funds. These include use of the General Services Capital funds; Prudential Borrowing; future capital receipts arising from work done through the Securitisation projects; Spend to Save funds; the Modernisation Fund; and revenue funds.
- 3.16** At this stage it is suggested that projects SP/11 (Fleet Replacement) and SP/12 (Street Lighting) should not be funded through Securitisation Funds, due to the significant investment required and limited financial benefit. It is proposed that the Fleet replacement should take place through a planned process of leasing arrangements, with appropriate provision being built into the ongoing revenue budgeting process. The Street Lighting requirements and plans should therefore be revisited and alternative plans generated for a phased approach to replacement through alternative funding streams.
- 3.17** It is also suggested that the project SP/7 Energy/Wind Turbine should not be funded from the Securitisation Fund, but should be funded from the Modernisation Fund. This project should therefore be considered for approval to proceed to develop a detailed implementation plan, fully exploring the future options around the value generated from the project, which may be in the form of a capital receipt, or in the form of an ongoing revenue funding stream. Pace is critical in securing potential benefit from this project in order that the Council can gain the benefit of the Government Feed in Tariff Guarantee which guarantees payment for twenty years of all energy fed into the National Grid. This Guarantee is being reviewed but is in place until April 2012.
- 3.18** It is proposed that Project SP/8, School Estate, including St. Peter's and Aitkenbar Primaries and associated Pre-5 Establishments continues to be developed for potential inclusion within the securitisation funding stream, though it is likely that it will be necessary to utilise a range of funding sources for this project. Appendix 3a illustrates the effect on demand for funding on the assumption that 66% of the initial investment is required for this project from the Securitisation Fund. This figure is used for illustrative purposes only at this

stage, as all the financial options will be considered following the development of the detailed business case and overall Securitisation Fund options.

- 3.19** Members will be aware of the parallel development between the Clyde Valley Councils through the Clyde Valley Shared Services partnership, of options around the creation of a shared services approach to Support Services. It is not clear at this stage what implications this proposed development will have on the three ICT projects included within this report. It is however, suggested that these projects should be developed into detailed business cases and in doing so the implications of the proposed shared service on the projects explored and identified and taken account of in the detailed business cases.
- 3.20** The ICT Core Infrastructure project is seen as an enabler project and has a low initial capital investment requirement, but has significant ongoing revenue costs. It is suggested, that due to the low initial investment cost of this project that it should be funded from Council's General Services capital budget, following the development of a detailed business case, albeit the timing of this investment should be considered in the context of 3.19 above.
- 3.21** The effect of the above assumptions (as described in 3.16 to 3.20) is to reduce the initial capital investment requirement from the Securitisation Fund to £36,737,000, and the ongoing revenue saving effect would increase to £2,458,000 from year 10, increasing gradually to £2,484,000 by year 25.
- 3.22** In addition to the financial effects identified in the outline business cases a number of the premises identified within the options are currently not maintained fully to a high standard as a result of shortfall in maintenance spend. The result of this and the expectation that in the current financial circumstances building maintenance is not the highest priority, the investment required in this area is growing year on year. There will come a time when the cumulative effect of this will result in a need for a significant spend to keep buildings operational. This effect is often called "backlog maintenance". The projects and options identified within the outline business cases have identified backlog maintenance to the value of £9.5m. If all projects are approved at a later date by Council, following analysis of detailed business cases then it is likely that this value of backlog maintenance can be fully avoided and considered as a future cost avoided.
- 3.23** The outline business cases have identified the potential for capital receipts to be generated. The value of these receipts associated with the initial investment in the projects is estimated at £10.190m and is expected to be achieved by Year 6, though this will be subject to market conditions.
- 3.24** Whilst every effort has been made to make the project submissions robust, Members should be aware that they are outline business cases at this stage, each of which include a range of assumptions which could result in significant changes in the business cases by the time the detailed business cases are developed. At this stage there remains the opportunity to expand upon, curtail, stop and/or replace the development of any of the projects being considered.

## Other Issues

- 3.25** A number of the projects are intrinsically linked and as such are dependant and at times interdependent on each other. An example of this would be the links and requirements the project SP/3 ICT Core Infrastructure has on other projects such as, SP/1 Office Rationalisation, SP/4 IT Equipment Replacement, SP/5 Integrated Out of Hours/CCTV and SP/6 Transformation of WDC Web and Contact Centre Services. These projects will need to be phased in an order which makes sense logistically and operationally. Any projects supported by the Council will move to the next stage of development (detailed business cases) and will be reported back to Council for further decisions at a later date.
- 3.26** The Council's commitment to Sustainability and Carbon Management is clear. In terms of reducing our carbon emissions the Council has set a target to reduce by 30% its carbon emissions by the year 2015. Many of the projects will be key contributors to the continued reduction of carbon emissions in the future. The detailed business cases will identify that contribution.
- 3.27** In relation to Office Rationalisation early dialogue between the Council and members of Strathclyde Police, 'L' Division Senior Management Team has also taken place. This revealed that an opportunity may exist to move towards greater co-located working and by extension the prospect of sharing services, maintenance and running costs. Any decision in this regard will of course be subject to the ability to establish a jointly advantageous model/business case which is acceptable to all parties involved.
- 3.28** Discussions have also taken place with the CHCP who are interested in further discussions regarding relocation to a new headquarters building, though the numbers involved would be small. In addition, meetings have taken place with Strathclyde Fire and Rescue, Scottish Enterprise, Skills Development Scotland and Strathclyde Passenger Transport. As the detailed business case is developed it will be important to confirm the plans of these and other organisations on sharing an HQ building.
- 3.29** In relation to the Office and Depot Rationalisation Projects, the specific sites examined have remained anonymous within the Project Summaries at Appendix 2. This has been done to prevent inflated values being placed on a site due to possible Council interest.

## **4. People Implications**

- 4.1** At this stage it is difficult to be certain of the people implications as a result of any of these projects going forward to implementation. However, some of the projects have attempted to identify for example if there would be a need to redeploy staff. Other projects would result in a relocation of work place for certain staff, whilst other projects would allow staff to carry out their duties in a much more flexible fashion than they are able to do at present.

- 4.2** Any reduction in staff numbers as a consequence of changing service delivery arrangements would be accommodated through voluntary means such as staff retiral, voluntary early retirement and voluntary severance. In addition, redeployment would also be utilised for staff whose positions were deemed as surplus to requirements and the post holder wished to remain with the Council.
- 4.3** Staff resources will have to be dedicated and focussed on developing detailed business cases for those projects supported by Council. In addition due to the nature of some of these projects, it will be necessary to procure specialist support and advice where appropriate to support Council Officers prepare and present these detailed business cases at the end of this calendar year.

## **5. Financial Implications**

- 5.1** As reported to Council on 29 January 2011, the outline Securitisation Business Case identified a net loss to the revenue account of £2.703m per year. It is therefore essential that the options for investment, as a minimum, identify recurring savings of at least that level.
- 5.2** In addition to the above, the Financial Strategy currently forecasts a budget gap of around £7.2m for 2012/13 with a further £5.4m estimated for 2013/14. The options for investment selected will be expected to play a key role in reducing the cost base going forward.
- 5.3** The Council will be required to demonstrate “value for money” to its external auditors in relation to the investment of the receipt. To assist with this process, all options have been costed on a standard template, quantified over a 25 year period and scored on a consistent basis to supply transparent audit evidence. At present the adjusted value of potential net revenue savings arising from the outline business cases is £2,355,000 from year 10 and further consideration of the net revenue effect will be required following the development of the detailed business cases. Section 3 above describes options for funding projects from the Securitisation Fund and these are reflected in the recommendations below. By doing as suggested in the recommendations the outline business cases suggest that those remaining to be funded by the Securitisation Fund would require £36,737,000 in initial investment and would generate a net revenue saving of £2,458,000 by year 10m increasing gradually to be around £2,484,000 by year 25. These figures are sufficiently close to the expected available Securitisation Fund and the sum required to offset the reduction in income to suggest that it would be worth generating detailed business cases to take the work a stage further.
- 5.4** Should some of the projects currently identified proceed within the timelines identified in the outline business cases it is expected that future costs in relation to backlog maintenance can be avoided. These costs have been excluded from the total net revenue effect at this stage. As noted above at, 3.22, the estimated value of this backlog maintenance for projects included is £9.5m.



- 5.5** As stated above a number of capital receipts associated with the initial investment in a number of the projects are expected to achieve around £10.190m. This figure will be conformed through the detailed business cases.
- 5.6** In addition to the financial challenges outlined in paragraph 5.2, Members are also reminded of the forecast government reduction of 23% to capital funding. As a result, the securitisation investment options should be considered alongside the Council's other capital priorities and funding sources.
- 5.7** It is likely that whatever options are selected that the capital expenditure commitments will be spread over a period of around two or more years. To maximise the benefit to the Council, a full cost benefit analysis will be carried out and reported to Council in relation to a comparison of a phased drawdown of the funds against the cost of holding the whole sum if received in one instalment and perhaps using the funds to offset, on a temporary basis, some of the Council's planned borrowing requirement. This is the Debt Management option identified at 3.6 above. This option will be explored further as detailed business cases are developed and more finite timelines are identified.
- 5.8** As highlighted at 4.3 within this report there will be a requirement for Council to set aside a sum of money to enable Officers to procure specialist advice and support where appropriate to develop detailed business cases for some of these projects should they be supported. It would be prudent to set aside £250,000 by way of a Development Fund to support this approach. This money could be made available from the Council's Modernisation Budget.

## **6. Risk Analysis**

- 6.1** Until a financial institution is identified and selected by members as the funder and the agreement is subsequently legally agreed, there is no guarantee of the £35m loan being available to fund projects.
- 6.2** As mentioned at 3.19 above, attention will have to be taken of the work of the Clyde Valley Community Planning Partnership and its shared services agenda. Presently, 4 projects including Waste Management, Social Transport, Health and Social Care and Support Services, are being developed and are seeking support from those Authorities involved in the CVCPP. Some of the proposed projects may be aligned to the work of the CVCPP shared services and may be better developed in conjunction with the CVCPP's efforts. Where projects proceed to detailed business this will include a proper assessment of the relative merits of CVCPP arrangements versus those developed internally to date.
- 6.3** The projects identified have been produced to an outline business case standard. If chosen by Members, projects will have detailed business cases prepared. This detailed work will provide a more exhaustive analysis of the financial and other implications and may identify issues not known at this time which could prevent those projects being implemented, change the way they would be delivered, or could result in significant changes to the financial assumptions currently held within the outline business cases.

**6.4** Should the Council use the loan for purposes which do not cover the £2.7m per annum shortfall in revenue through the withdrawal of the rental income this will create additional pressure of the revenue budget in future years and is likely to attract criticism from external auditors.

## **7. Equalities, Health and Human Rights Impact Assessment (EIA)**

**7.1** No issues were identified in a screening for potential equality impact of this report. However, a full Equalities, Health and Human Rights Impact Assessment (EIA) will be an integrated element of any of the detailed business cases for projects selected to be presented to the Council for approval at the end of this calendar year.

## **8. Strategic Priorities Assessment**

**8.1** The approach outlined previously contributes significantly to the Economic and Social Regeneration of the West Dunbartonshire area. A number of the specific projects such as office rationalisation, care homes, school estates and the Kilpatrick Secondary School will result in a number of new build projects which will create jobs and training opportunities through their construction in addition to providing sustainable jobs and services once operational. Overall the approach will help to regenerate the area and improve the services delivered to the West Dunbartonshire community. The specific contribution of each project will be determined through the detailed business case.

**8.2** The projects selected for consideration have been assessed in terms of their importance to improving the delivery of our services and/or for generating revenue savings in the future. The overall investment provides good value for money for the Council and will assist the Council in terms of its drive for continuous improvement.

**8.3** A number of the projects include significant new build and as such will assist in improving the Councils physical assets. It will allow staff to operate in a better designed environment with fit for purpose resources to deliver an excellent service to communities. All of the projects highlighted will assist in improving the delivery of services to the West Dunbartonshire community. The transformation of the website and contact centre will allow more customers to make contact with us more easily and more often, the integrated out of hours/CCTV facility will enable a better service 24/7 to customers and new better designed care homes will enable the Councils care homes to run more efficiently and provide an improved environment for elderly residents.

## **9. Conclusions and Recommendations**

**9.1** Securitisation and the opportunities it presents to the Council to invest a significant sum of money (potentially around £35m) in assisting the Council to meet its Strategic Priorities is an opportunity which may not present itself again and should be fully supported.

- 9.2** Members are asked to consider and support the continued development of 12 projects to detailed business case level. These projects have been identified as being critical in terms of continuing to deliver effective and sustainable services to community and and to assist the Council to transform the way it delivers these services in the future. Due cognisance will require to be taken of the wider developments/proposals currently being explored by the CVCPP to ensure that optimum benefit is realised.
- 9.3** Providing the appropriate funding for the delivery of these projects could be considered by utilising a number of different funding routes, namely, the General Services Capital budget, the Council's Modernisation Fund, Spend to Save budgets the monies raised through Securitisation or alternatively through the Councils Revenue budget.
- 9.4** It is recommended that the Council:
- (i) agree that all of the projects identified within this report are progressed to detailed Business Case stage and for them to be submitted to the Council for consideration at the end of this calendar year;
  - (ii) agree that projects SP/11 Fleet Replacement, and SP/12 Street Lighting (see 3.16) should not be funded through Securitisation Fund, with Fleet Replacement being funded through leasing via revenue funds, and Street Lighting restructured into a planned phased approach funded from other more appropriate funding streams to be identified in the future;
  - (iii) agree that the project SP/7 Energy Wind Turbines (see 3.17) should be funded from the Modernisation Fund and can proceed to develop a detailed Implementation Plan with a report coming back to a future Council meeting;
  - (iv) agree that the project SP/8 School Estate (see 3.18) can be funded from a range of funding streams, including some or all of investment costs coming from Securitisation monies;
  - (v) agree that the project SP/3 ICT Core Infrastructure (see 3.20) should be funded from the Council's General Services Capital Budget following the development of a detailed business case subject to material developments in the Clyde Valley Shared Services Review that may modify this position;
  - (vi) agree to set aside £250,000 from the Council's Modernisation Fund to allow officers to procure the necessary expertise and support to assist in the preparation of detailed business cases for those projects supported; and
  - (vii) delegate authority to the Executive Director of Housing, Environmental and Economic Development to oversee the development of the

detailed business cases and the utilisation of the £250,000 set aside to assist in the preparation of these cases, in order to bring a report to a future Council on the outcomes of the detailed business cases analysis.

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**Date: 17 June 2011**

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**Appendices:** Appendix 1: Assessment Criteria  
Appendix 2: Business Cases  
Appendix 3a: Outline of phased expenditure to implement projects  
Appendix 3b: Outline net revenue effect of projects

**Background Papers:** None

**Wards Affected:** All