



Agenda

Meeting: **Overview and Scrutiny Committee**
Date: **27 February 2018**
Time: **6.00 pm (PLEASE NOTE START TIME)**
Place: **Council Chamber - Civic Centre, Folkestone**

To: **All members of the Overview and Scrutiny Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

1. **Apologies for Absence**

2. **Declarations of Interest**

Members of the committee should declare any interests which fall under the following categories*:

- a) disclosable pecuniary interests (DPI);
- b) other significant interests (OSI);
- c) voluntary announcements of other interests.

3. **Minutes (Pages 5 - 38)**

To consider and approve, as a correct record, the minutes of the meetings held on 16 and 30 January 2018.

4. **Transforming Shepway (Pages 39 - 126)**

As part of its Transforming Shepway programme, Shepway District Council has been considering how it can utilise service redesign and ICT to meet its ambitions to become a more efficient and effective organisation and meet the needs and aspirations of its communities in the context of

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increasing pressures to reduce costs. This document provides the conclusions of work to redesign the Council's services supported by Cabinet at its meeting in June 2017. This report includes the business case, future operating model and high level implementation plan. It also outlines that by adopting a refreshed ICT Strategy and making an investment in its ICT infrastructure and changing its business operations, the Council can achieve improvements in services for residents and deliver a genuine efficiency without cutting services.

5. **General Fund Budget and Council Tax 2018/19 (Pages 127 - 138)**

Report C/17/83 sets out the final General Fund budget and council tax requirement for 2018/19, including that part of the local tax covering district and parish services.

6. **Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2018/19 (Pages 139 - 170)**

Report C/17/78 sets out the proposed strategy for treasury management for 2018/19 including the Annual Investment Strategy and Treasury Management Indicators to be approved by full Council. This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2018/19 to be approved by full Council.

7. **Future Strategy - Oportunitas Ltd (Pages 171 - 184)**

Report C/17/81 recommends a future direction for the Council's Regeneration & Housing Company, Oportunitas. It positions the future of the company in the context of the Council's Corporate Plan and Investment Strategy, and draws heavily on the outcomes of a financial remodelling exercise undertaken by the Council as the sole Shareholder, to identify the required level of investment and the appropriate debt to equity funding structure, to ensure that income returns to the Council are optimised while also allowing Oportunitas to become financially sustainable.

8. **Exclusion of the Public**

To exclude the public for the following item of business on the grounds that it is likely to disclose exempt information, as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 –

'Information relating to the financial or business affairs of any particular person (including the authority holding that information). "Financial or business affairs" includes contemplated as well as current activities.'

9. **PREVENT update (Pages 185 - 188)**

Report OS/17/06: On 12th September 2017 the Overview and Scrutiny

Committee (OSC) received an annual report on safeguarding activity conducted during 16/17 and advised of the new refreshed safeguarding policy. The committee were keen to receive an overview of PREVENT and current counter terrorism activity as some of this work now features under the safeguarding policy. The Counter terrorism and Security Act 2015 placed a duty on specified authorities to have due regard to the need to prevent people from being drawn into terrorism. Authorities subject to the provisions must have regard to the PREVENT duty guidance when carrying out the duty (this includes Local Authorities).

Nick Wilkinson County PREVENT will be giving a private presentation.

10. **Potential Freehold Disposal of Folkestone Indoor Bowls site, Cheriton Road, Folkestone (Pages 189 - 196)**

Report C/17/79 reviews the current position of the Folkestone Indoor Bowls (FIB) club, Cheriton Road Folkestone and considers two offers that have been received for the site from national budget supermarket chains.

*Explanations as to different levels of interest

(a) A member with a disclosable pecuniary interest (DPI) must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares a DPI in relation to any item must leave the meeting for that item (unless a relevant dispensation has been granted).

(b) A member with an other significant interest (OSI) under the local code of conduct relating to items on this agenda must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares an OSI in relation to any item will need to remove him/herself to the public gallery before the debate and not vote on that item (unless a relevant dispensation has been granted). However, prior to leaving, the member may address the meeting in the same way that a member of the public may do so.

(c) Members may make voluntary announcements of other interests which are not required to be disclosed under (a) and (b). These are announcements made for transparency reasons alone, such as:

- membership of outside bodies that have made representations on agenda items, or
- where a member knows a person involved, but does not have a close association with that person, or
- where an item would affect the well-being of a member, relative, close associate, employer, etc. but not his/her financial position.

Voluntary announcements do not prevent the member from participating or voting on the relevant item

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Folkestone

Hythe & Romney Marsh
Shepway District Council



Minutes

Overview and Scrutiny Committee

Held at: Council Chamber - Civic Centre, Folkestone

Date: Tuesday, 16 January 2018

Present: Councillors Miss Susan Carey, Peter Gane (Chairman), Clive Goddard, Ms Janet Holben, Mrs Claire Jeffrey (Vice-Chair), Michael Lyons, Frank McKenna, Ian Meyers, Russell Tillson and Mrs Rodica Wheeler

Apologies for Absence

Officers Present: Kate Clark (Committee Services Officer), Ben Geering (Head of Planning), Charlotte Spendley (Head of Finance), Adrian Tofts (Planning Policy Manager) and Lee Walker (Group Accountant)

Others Present:

67. **Declarations of Interest**

There were no declarations of interest.

68. **Minutes**

The minutes of the meeting held on 12 December 2017 were submitted, approved and signed by the Chairman.

69. **Council Tax Base 2018/19**

The Council is required to decide its tax base which will be used in the calculation of Council Tax for 2018/2019. Report C/17/75 proposes the tax base recommendations for the Council's approval.

Mrs Charlotte Spendley, Head of Finance, presented the report to the Committee.

Members questioned the number of dwellings on holiday parks in the District which are subject to Council Tax. Mrs Spendley will return to members with this information.

Overall members agreed this report showed a good position and positive outcome.

Proposed by Councillor Ms Susan Carey
Seconded by Councillor Michael Lyons and

Resolved:

1. To receive and note report C/17/75.

(Voting: For 10; Against 0 ; Abstentions 0)

70. Update to the General Fund Medium Term Capital Programme and Quarter 3 Monitoring 2018/19

Report C/17/72 updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2023. The report also provides a projected outturn for the General Fund capital programme in 2017/18, based on expenditure to 30 November 2017. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process.

Mr Lee Walker, Group Accountant - Capital and Treasury Management, presented the report

Members noted the following:

- Council vehicles purchased, not leased.
- Coast protection, funding provided by the Environment Agency.
- Capital investment of major initiatives and borrowing requirements.

Proposed by Councillor Michael Lyons
Seconded by Councillor Russell Tillson and

Resolved:

1. To receive and note report C/17/72.

(Voting: For 10; Against 0; Abstentions 0)

71. Core Strategy Review Regulation 18 Consultation

Report C/17/73 is to update Cabinet regarding progress with the Core Strategy Review. A draft of the Core Strategy Review (Regulation 18 Consultation document) is provided as Appendix 1.

This report asks Cabinet's approval to undertake public consultation on the Core Strategy Review under Regulation 18 of the Town and Country Planning (Local Planning) (England) Regulations 2012 and seeks delegated authority for the Head of Planning to make any amendments needed for the Regulation 18 consultation (arising from the Sustainability

Appraisal and Habitat Regulations Assessment process and any other necessary changes) in consultation with the Cabinet Member for the District Economy.

Mr Ben Geering, Head of Planning, provided a presentation of the Core Strategy Local Plan Review which is attached.

Members noted concerns around the following:

- Carbon efficiency at Otterpool Park. Specific details of this will be included in the Masterplan.
- Number of new homes to be built in the District. Housing Delivery Target must be achieved.
- District wide healthcare. The Places and Policies Local Plan document proposes the provision of a healthcare hub in New Romney and council officers are working closely with the Clinical Commissioning Group, GP practices and Kent County Council to deliver the project..

Members noted the public consultation period and were keen to know how this will be delivered. Mr Adrian Tofts, Planning Policy Manager, confirmed that the Communications Team are advising on how this will be undertaken, however members of the public and interested groups will be welcome to comment on any part of the plan. There will be details on the council's website; consultation events will be held; and all individuals and groups on the council's consultation database will be contacted, as well as neighbouring authorities and statutory organisations.

The Chairman suggested that information could be included in residents' annual Council Tax bills to promote the District's website and clear directions to the Core Strategy Review. Mr Geering will contact the Communications Team to discuss.

Proposed by Councillor Peter Gane
Seconded by Councillor Michael Lyons and

Resolved:

- 1. To receive and note report C/17/73.**

(Voting: For 9; Against 0; Abstentions 1)

The Chairman, Councillor Peter Gane, suggested an earlier start time of 6pm for the next Overview and Scrutiny Committee to be held on Tuesday 27 February 2018. Members were in agreement to this suggestion.

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Core Strategy Local Plan Review

Presentation to Overview & Scrutiny Committee

16th January 2018

Core Strategy Local Plan Review

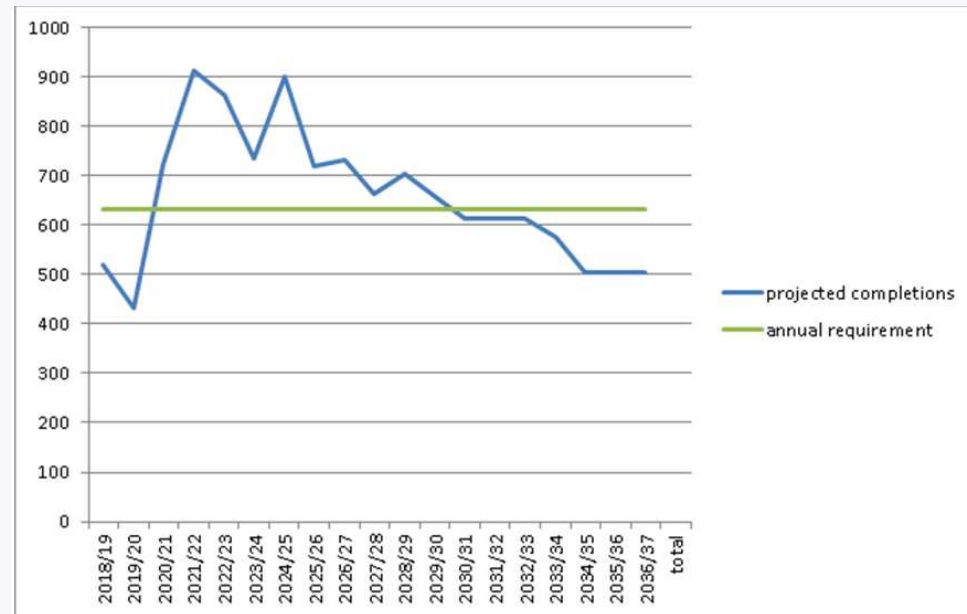
Report to Cabinet on 17th January 2018 sets out:-

- Draft Regulation 18 version of the Plan Review as prelude to public consultation in February/March 2018
- Planning for future housing need and housing delivery
- A revised spatial strategy including:
 - a strategic allocation for a new Garden Settlement
 - an extended broad location for development at Sellindge

Core Strategy Local Plan Review- Housing Requirement and Delivery

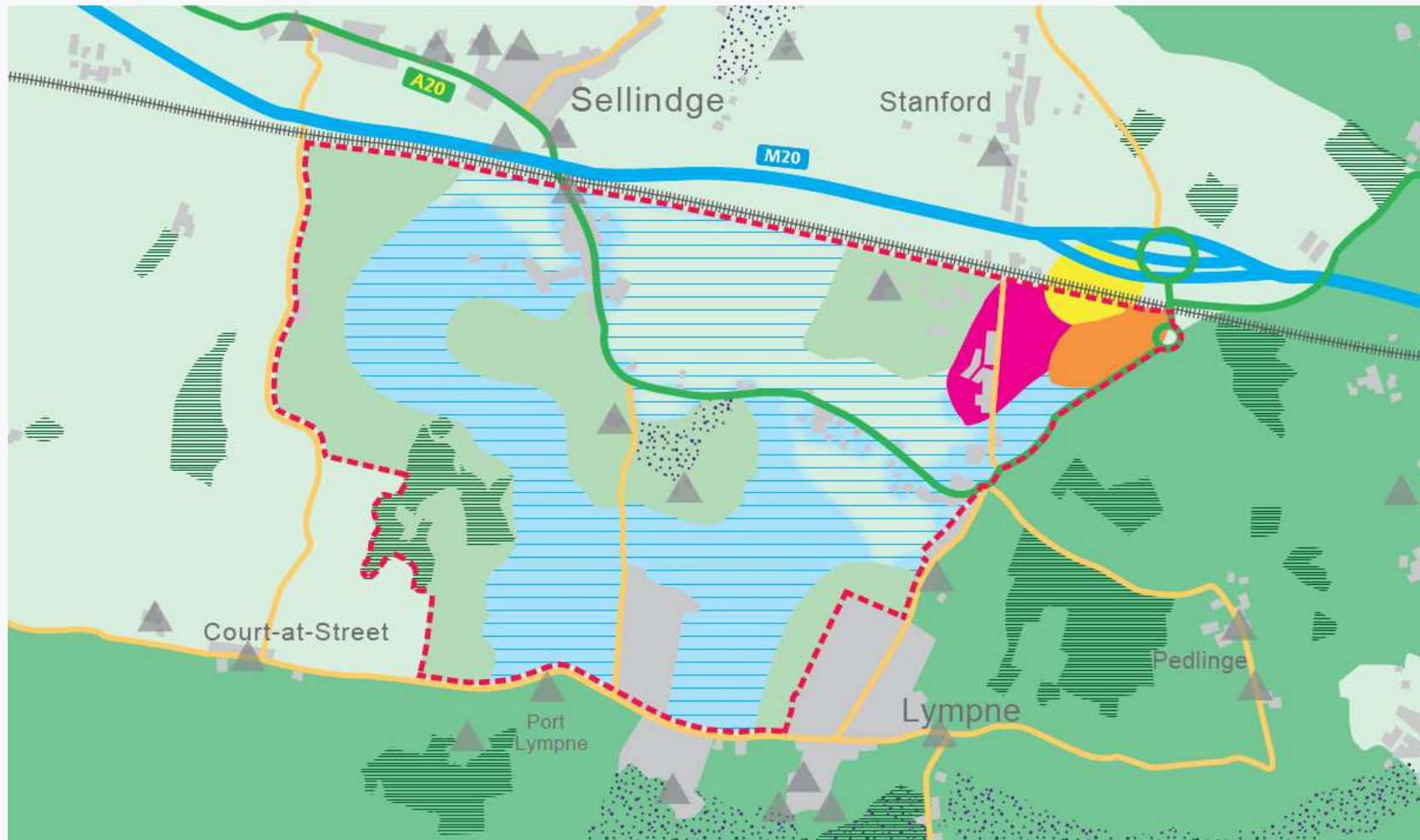
Housing Delivery

- Existing requirement is 350 homes per year – being delivered by the Core Strategy, existing planning permissions and emerging sites in the PPLP
- Proposed requirement to 2037 based on SHMA is for 633 new homes per year in district between 2018 and 2037 - a total of 12,027 new homes needed over the plan period, including 139 affordable homes per year
- CS Review to meet the additional need beyond that already being planned for
- Preferred approach is based on local need established in SHMA in preference to emerging Government consultation which proposes a cap on new housing need of 490 homes per year over first 5 years of plan
- Delivery will not be linear – importance of considering the trajectory as larger sites and the garden town come forward



Garden Settlement – Proposed site allocation

Page 2



Policy SS6 - Garden Settlement North Downs - Indicative Strategy

- | | | | |
|----------------------|----------------------|--|------------------------------------|
| A Roads | Policy SS6 Boundary | Town Centre | Business Hub |
| Motorway | Railway | Westenhanger Station - Transport Hub | SSSI |
| Minor Roads | Strategic Open Space | Mixed-Use Neighbourhoods | Ancient Woodland |
| Existing Built Areas | Kent Downs AONB | Neighbourhoods with Landscape Mitigation | Heritage Assets (Listed Buildings) |

Garden Settlement Policies

- Drawing on our substantial evidence base –Strategic allocation for a new garden town (Otterpool Park), capitalising on existing infrastructure, location and landscape quality
- Policy requirement for a minimum of 5,500 homes over the plan period until 2037, with development capacity within the red line of 8,000 -10,000 homes (subject to detailed masterplanning), drawn from evidence base work providing opportunity for growth beyond the plan period
- Ongoing discussions with consultees, providers and the site promoter regarding masterplanning, development requirements, and the challenging delivery and trajectory requirements

Garden Settlement Policies

- Policies SS6-SS9 of the draft plan set out detailed policy requirements for a landscape led, highly innovative, efficient, connected and sustainable new settlement, delivered over the plan period and beyond building on aspirations set out in the Charter, including:
 - High levels of carbon and water efficiency with an aspiration for carbon and water neutrality
 - Infrastructure requirements, including station enhancements to ensure the town is HS1 ready and has facilities to serve its growing community and the surrounding villages
 - Mixture of homes to meet housing need, including provision of affordable rent and shared equity, self and custom build, private rental sector and specialist housing to meet the needs of the elderly
 - Delivery of the highest quality townscape and landscape, to make a place of real character

Broad Location - Sellindge



Policy CSD9 - Sellindge Strategy

- | | | | |
|-------------------|--------------------------|-----------------------------|---------------------------------------|
| A Roads | Employment (B1) | Existing Primary School | Improved Connectivity |
| Road Improvements | New Community Facilities | Expansion of Primary School | New Cycle/Pedestrian links to Station |
| Motorway | Phase 1 Housing | PPLP Allocations | Landscaping |
| Minor Roads | Phase 2 Housing | Existing Built Areas | Village Green |

Revisions to policy CSD9 – Sellindge Strategy

- Existing policy for 250 homes in Sellindge, including provision of new village green, parish offices, shop, highway improvements and extension to school. Taylor Wimpey completing purchase and shortly to submit Reserved Matters application
- Aecom work identified significant further capacity for growth in the locality
- Detailed assessment of the village and future growth opportunity by officers – proposal to increase policy to up to 600 homes, provide localised employment opportunities and improve community facilities – extended primary school to 2FE, potential to expand/replace village hall, nursery facilities, allotments and sports facilities

Employment Opportunities Study

- The ethos of O.P garden town provides an opportunity for a step change in the economic growth trajectory of Shepway
- Land space for advanced manufacturing, a business park, hybrid employment space and dispersed workspace hubs in local centres
- “An innovation district” approach is suggested to reflect changes to working patterns, with specific consideration given to phasing
- O.P could generate up to 6,800 jobs once fully operational
- O.P needs the unique selling points of being super-connected, an innovation place to enable start and scale-up business and a cluster/centre of excellence
- Four critical success factors: branding and targeted promotion, incentives, innovation, delivery.

Evidence Base Progress

Evidence Base Documents	Who	Status	Comments
Strategic Housing Market Assessment	PBA	Completed	633 dwellings per year 2014 – 2037, affordable need of 139 per year 2014-2037
High Level Landscape Appraisal	AECOM	Completed	Covers whole district
Growth Options Report stages 1 and 2	AECOM	Completed	Strategic growth opportunities
Sustainability Appraisal (including HRA)	LUC	On-going	Statutory requirement
Transport Assessment	AECOM	On-going	Junction capacity assessments
Strategic Flood Risk Assessment	Herrington's	Completed	East Stour River issues
Shepway Water Cycle Report	In-house	Underway	Water stress area – site promoter to prepare catchment study
Self-build and custom-build	In -house	On-going	Policy requirement in PPLP and CS Review
Green Infrastructure Report	In-house	To be updated	
Sports Facilities Needs Assessment	PLC	Underway	To be completed April 2018 to provide evidence of sports and playing pitch need
Employment Land Review	Lichfield's	Completed	
Employment Opportunities Study	Lichfield's	Nearing completion	Sectors and business investment in OP
Heritage Strategy	KCC	Nearing completion	To inform policy
Low Energy – Low Carbon		To be commissioned	To inform standards – opportunity for joint work with site promoter
East Kent Gypsy, Traveller and Show People	East Kent	Underway	Statutory requirement
Design Quality and Place Making		To be commissioned	Eofl to Housing Delivery Fund proposed
Demographic profiling of new settlement		To be commissioned	Opportunity for joint work or promoter led
Viability and Deliverability		To be commissioned	To test emerging policies in the plan ahead of regulation 19 consultation

Draft Planning Timetable and Next Steps

Proposed Planning Timetable

	PROPOSED OTTERPOOL PARK PROGRAMME																			
	Year		2016				2017				2018				2019				2020	
	Quarter		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
WORK STREAM 1 - Local Planning Authority - Core Strategy Review																				
Establish Project Plan For Reviewing Core Strategy			■	■																
SHMA Review (To Identify Housing Need)			■	■	■															
Sustainability Appraisal (including assessment of alternatives)					■	■	■	■	■	■	■	■	■							
Strategic Growth Options Study					■	■	■	■	■											
Transport Capacity And Opportunities Assessment			■	■	■	■	■	■	■	■	■									
High Level Infrastructure Assessment					■	■	■	■	■											
High Level Landscape Character Assessments					■	■	■	■	■											
Employment Land Review Update					■	■	■	■	■											
Employment Opportunities Study					■	■	■	■	■											
Select Preferred Option and Draft Policies					■	■	■	■	■											
Assess Framework Master Plan Against Draft Plan Policies								■	■	■										
Finalise Regulation 18 Draft Local Plan - Including SA and HRA#								■	■	■										
Cabinet Agree Consultation on Draft Local Plan										■										
Regulation 18 Public Consultation On Draft Local Plan										■										
Consideration of Reg 18 Representations / Objections											■	■								
Make Modifications to Plan												■	■							
Prepare Regulation 19 Submission of Local Plan													■							
Cabinet Approval of Regulation 19 Local Plan														■						
Final Public Consultation On Submission Plan															■					
Submit Local Plan With Evidence Base To PINS																■				
Examination In Public (EIP) Including Inspector's Report																	■	■		
Adopt Plan (if Inspector doesn't require changes)																			■	

■ Work Completed ■ Work Scheduled

NOTES

PINS = Planning Inspectorate
 SA = Sustainability Appraisal (throughout plan making process)
 HRA = Habitat Regulation Assessment
 PPA = Planning Performance Agreement
 Duty to Co-operate runs through out planning process

Questions and Comments



Overview and Scrutiny Committee

Held at:	Council Chamber - Civic Centre, Folkestone
Date	Tuesday, 30 January 2018
Present	Councillors Miss Susan Carey, Clive Goddard, Ms Janet Holben, Mrs Claire Jeffrey (Vice-Chair), Mrs Mary Lawes (In place of Frank McKenna), Michael Lyons, Ian Meyers, Russell Tillson, Mrs Susan Wallace (In place of Peter Gane) and Mrs Rodica Wheeler
Apologies for Absence	Councillor Peter Gane and Councillor Frank McKenna
Officers Present:	Andy Jarrett (Head of Strategic Development Project), Sue Lewis (Committee Services Officer) and Julia Wallace (Masterplanning Project Manager)
Others Present:	Councillor David Monk, Leader, Councillor Mrs Jenny Hollingsbee, Cabinet Member for Communities and Councillor Dick Pascoe, Cabinet Member for Property Management and Environmental Health

72. **Declarations of Interest**

There were no declarations of interest.

73. **Delivering Otterpool Park and Otterpool Park Framework Masterplan (Part exempt)**

Report C/17/76 provides an update to Cabinet on a range of matters relating to the delivery of Otterpool Park. It sets out various options for delivering the council's objectives for Otterpool Park and also makes recommendations that the council should explore, including the option of forming a development company. It also provides an update on the budget for the project.

Andy Jarrett, Head of Strategic Development Projects informed that officers are now focusing on moving forward with delivery of the project and this report asks Cabinet to agree a number of recommendations to do this.

He explained that sitting behind the project is the question of return, ensuring that the project will be profitable. This is a new experience for the council as the project is far bigger in size, complexity and time to deliver than any previous project it has led. The Council has sought advice from a number of professionals because of this.

Mr Jarrett explained that there are always risks with projects of this size but these reduce over time with profit increasing, therefore, if the council meets all the necessary requirements it could give a commercial return that would then be put to use in other parts of the district. The financial objectives are shown in the papers attached but it was made clear that the council's finance team will monitor all aspects of the project. A report will be brought to Cabinet with a full financial and viability update in March 2018.

A number of delivery options have been put forward but the preferred option is to have a corporate joint venture which is typical of large scale, long term projects, therefore Cabinet is asked to agree that officers investigate this further.

Members asked a number of questions paying particular attention to the following:

- Importance of avoiding delay, and avoiding uncertainty and risk in selection of a delivery route.
- Profitability – it is still early stages and what degree of profitability the scheme will have will become known later but the signs are positive. Further details will be needed on how the whole district will benefit, but it is too early to be specific at this stage.
- Finance – all indications are good but the finance team will work alongside the project team and will monitor at all stages.
- Long term vision – guarantees cannot be made but officers informed that the council is in a good position, particularly as it is both the local planning authority and owns 50% of the land for the project, which gives more control.
- Benefit – the Council has backing from KCC through its application to the government's Housing Infrastructure Fund which can help deliver schools, surgeries and other facilities early.
- Stability against risk – the Council has stability and continuity therefore is desirable for partners, and has value in the land. Advice will be sought as a next step on how future JV arrangements can minimise risks from eg bankruptcy of a private sector partner.

A copy of the presentation given is attached to these minutes for information.

Proposed by Councillor Michael Lyons
Seconded by Councillor Russell Tillson and

Resolved:

- 1. That report C /17/76 be received and noted with approval.**

(Voting: For 9; Against 0; Abstentions 1)

74. **Exclusion of the public**

Proposed by Councillor Russell Tillson
Seconded by Councillor Michael Lyons and

Resolved:

To exclude the public for the following item of business on the grounds that it is likely to disclose exempt information, as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 –

‘Information relating to the financial or business affairs of any particular person (including the authority holding that information). “Financial or business affairs” includes contemplated as well as current activities.’

(Voting: For 10; Against 0; Abstentions 0)

75. **Delivering Otterpool Park and Otterpool Park Framework Masterplan (Part exempt)**

Members were given an update on some of the land ownership aspects of delivering Otterpool Park.

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Otterpool Park delivery

Overview and Scrutiny Committee, 30 Jan 2018

Purpose of Cabinet report

- To set out options for delivering Otterpool Park
- Seeking £350,000 to explore preferred option
- Consider option to form a development company
- Support for use of CPO powers should they be required
- Update on discussion with Homes England
- Otterpool Park to be represented at MIPIM by DIT



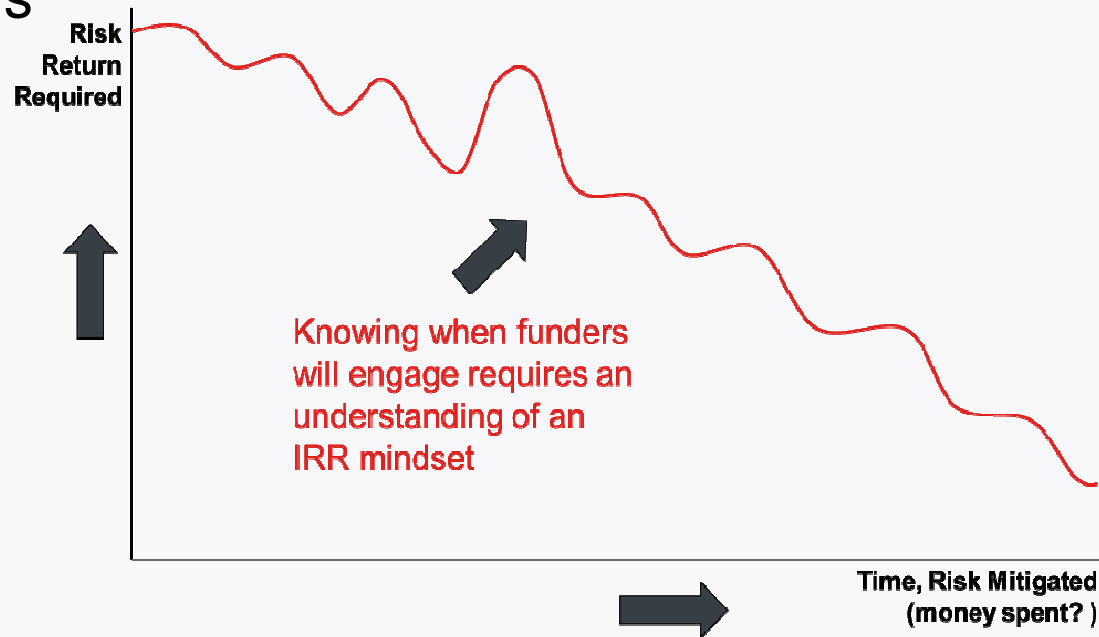
Background

- Last landowner update to Cabinet 19 July 2017
- Long term stewardship Cabinet paper 18 Oct 2017



Strategic developments – risk and return

- Otterpool Park is unlike any other project the council has embarked on in terms of size, complexity and time
- Advice sought from: Pinsent Masons, Arcadis and Hampshire CC/ Basingstoke and Deane District Council (Manydown Garden Town) Montagu Evans, Savills



Arcadis

Commercial return

“the value or profit available after meeting all the requirements of the initial outline planning application and future reserved matter approvals and further planning permissions”.



Otterpool Park Delivery - Corporate Plan objectives

“More Homes”

- Create a new garden town at Otterpool Park

“Achieving Stability”

- Explore alternative income streams
- Develop an investment strategy for the longer term
- Optimise the financial benefit from major developments



Financial objectives

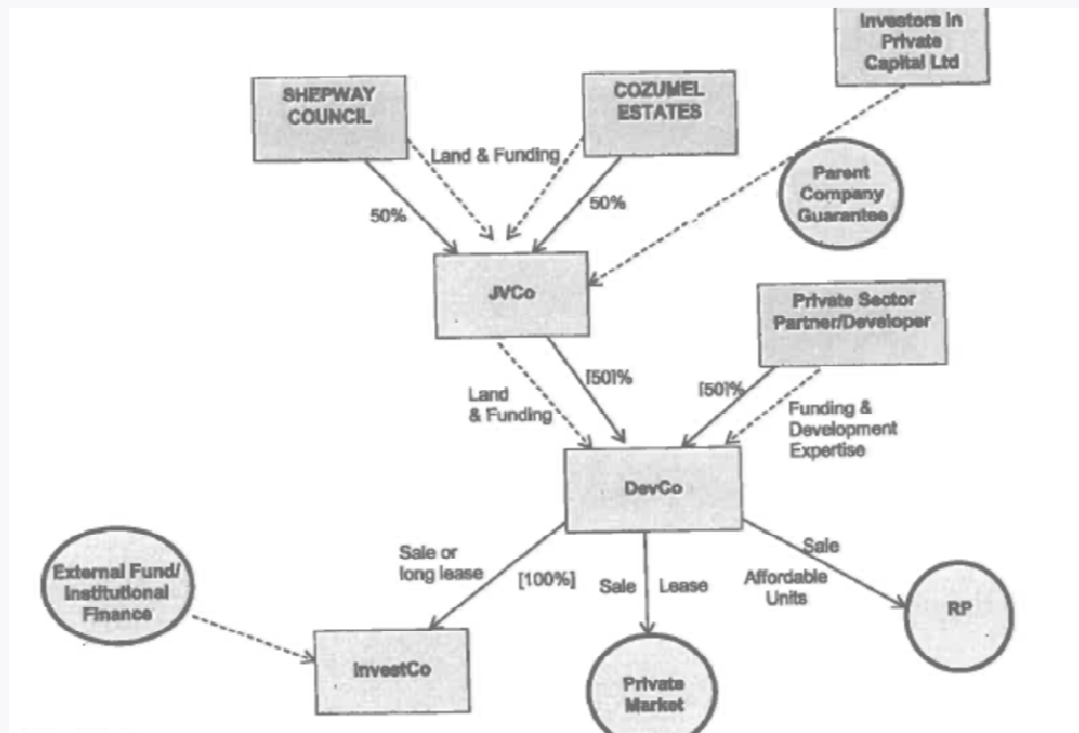
- Long term - generating revenue streams from commercial, retail and residential elements of the development.
- To recognise the need for early capital investment
- To create financial benefit for the whole district.
- The Garden Town to be financially sustainable.
- To maximise external funding in support of the project(public and private).
- To consider at each critical decision point the future financial model with an emphasis on affordability for the council.

Delivery options

1. The council develops its own land independently;
2. The council develops acquires further land and develops independently;
3. The council sells its land interest to another party free for them to develop;
4. The council sells its land interest to another party subject to a development agreement;
5. The council sells its land interest by means of a conditional land sale agreement with an ability to re-acquire land in the event of failure to meet milestones;
6. A contractual joint venture agreement;
7. A corporate joint venture.

Preferred option – corporate Joint Venture

- A corporate joint venture vehicle – either limited liability company (limited by shares) or a limited liability partnership.
- This does not commit the council to this option, but to explore it further.



Corporate Joint Venture – why a preferred option?

Advantages including:-

- Shared costs and risks
- Joint control over delivery
- Liability is limited
- Simple exit from joint venture company if required
- Involvement at board and member level/shareholder
- Transparent profit sharing arrangement
- Directors have defined duties to the company
- Finance flexibility
- Profits can be distributed by dividend in case of a company
- Familiar model for the private and local government sectors

Confidential annex

- Update on land acquisition
- Liaison with Homes England



Next steps

- Commission financial, legal and commercial advice on corporate joint venture if selected as preferred option for further analysis
- Bring full financial and viability update to Cabinet
- Bring draft Framework Masterplan to Cabinet (March 2018)



Questions and comments



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This Report will be made public on Monday 19 February 2018.

Folkestone

Hythe & Romney Marsh
Shepway District Council



www.shepway.gov.uk

Report Number **C/17/82**

To: Cabinet
Date: 28 February 2018
Status: Key Decision
Head of Service: Sarah Robson, Head of Transformation
Portfolio Holder: Councillor David Monk, Leader of the Council

REPORT TITLE: TRANSFORMING SHEPWAY

SUMMARY: As part of its Transforming Shepway programme, Shepway District Council has been considering how it can utilise service redesign and ICT to meet its ambitions to become a more efficient and effective organisation and meet the needs and aspirations of its communities in the context of increasing pressures to reduce costs. This document provides the conclusions of work to redesign the Council's services supported by Cabinet at its meeting in June 2017. This report includes the business case, future operating model and high level implementation plan. It also outlines that by adopting a refreshed ICT Strategy and making an investment in its ICT infrastructure and changing its business operations, the Council can achieve improvements in services for residents and deliver a genuine efficiency without cutting services

REASONS FOR RECOMMENDATIONS: Cabinet is asked to consider the following reasons for recommendation:

- Transforming Shepway helps the Council to meet its ambitions to become a more efficient and effective organisation and meet the needs and aspirations of its communities in the context of increasing pressures to reduce costs.
- A new ICT infrastructure is now required that matches the Council's business requirements for the next 5 years and beyond with technology that is both efficient and cost effective.
- The constitution requires Full Council approval for all virements, which are outside of the budget framework and Cabinet agreement to the use of reserves

RECOMMENDATIONS: Cabinet is asked to:

1. Receive and note the report.
2. Agree to implement the redesign of the Council's services and new 'operating model' based on the business case outlined in the report.

3. Support expenditure of circa £5.9m spread over the term of the project to 2020/21 (including a Notional Severance Provision of £2m), which will include: £0.75m from existing revenue; £2.925m from use of flexible capital receipts; £1.030m from financing exchanges and £1.225m from capital financed through borrowing or reserves, which will produce an expected net annual ongoing efficiency saving of £1.8m from 2020/21.
4. Approve for this report to be presented to full Council to agree the overall budget of £5.9m spread over the term of the project to 2020/21.
5. Approve the use of the available flexible capital receipts to fund the transformation project costs incurred in 2017/18
6. Approve the overview of and any amendments to the financial envelope to be delegated to the Corporate Director of Organisational Change in consultation with the Leader of the Council
7. Approve the refreshed ICT Strategy 2018-2023 (Appendix 2).

DRAFT

1. BACKGROUND

- 1.1 This Council, like many others, is facing a number of challenges over the medium term. Maintaining the status quo is not an option. The Council has never stood still in its search for efficiency and better public service, but it's clear that tough times are ahead. The Council is presented with a limited choice. It can cut back on its ambitions for its communities and the level of services it offers them, or it can innovate in what it does and the way it goes about our business, in order as far as possible, to meet community needs and aspirations. The Council has been explicit in its desire to protect public service delivery from further cuts to frontline services in order to minimise any impact on our communities.
- 1.2 The financial challenges the Council face were set out at Cabinet's meeting of 31 May 2017 (Report C/17/03 – Updated Medium Term Financial Position) and also in the latest MTFS reported to Cabinet and Council in October 2017. This report agreed for ongoing work to be undertaken in order to monitor progress to meet the financial challenges identified. The MTFS identified the following Medium Term Financial Forecast :

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
In year deficit	1,151,000	1,742,000	3,058,000	4,380,000	4,828,000	4,984,000
Cumulative deficit*	1,151,000	2,893,000	5,951,000			

- **The cumulative deficit shows financial position if no action is taken to address the in-year deficits on an ongoing basis.*
 - *The shaded columns are outside of the usual MTFS range. However, they indicate the ongoing nature of the “in year” deficit although the cumulative position has not been extrapolated.*
- 1.3 It is clear that the Council faces ongoing challenges to meet its budget gap over the next few financial years. In order to achieve its Corporate Plan vision of ‘Investing for the next generation, Delivering more of what matters’, it is simply unsustainable to continue reducing our staff numbers and retain the delivery of essential public services unless it finds a very different approach.
- 1.4 The Council has continued to review its efficiency programme, whilst ensuring frontline services are protected for our communities. It has continued to re-evaluate spending; challenging those areas where it can reduce our costs and be more efficient, as well as maximising opportunities to generate additional revenue. As a Council, elected members have maintained that income should not be increased by significant Council Tax rises or reductions in the delivery of essential public services.
- 1.5 In previous years the Council has achieved targeted savings service by service, undertaken departmental restructures and considered other opportunities including an ambitious proposal for a single East Kent Council, which had the potential to make a collective saving of up to £7 million in the first two years, but

was rejected. Following the decision not to progress with moving forward with the proposal to create a new East Kent Council, the Leader of the Council released a statement confirming that “without any grant from central government significant savings would still be required”...and officers had been tasked “to come forward with fresh proposals that will be put before Council.”

- 1.6 The Council continues to benefit from strong collaborative leadership between its elected Cabinet and Corporate Management Team, making a commitment to be more ‘commercially-minded’ seeking opportunities which will help achieve some of the required efficiencies. A proposed new model of operational delivery is being considered, which will address a number of ‘drivers for change’ the Council is faced with against its commitment to deliver for our communities through the provision of cost effective services, understanding our customers more and having a better insight into their needs and the demands they place on us.
- 1.7 These ‘drivers for change’ include advancements in technology, where there is a greater expectation from our customers to meet their needs 24/7 using a variety of channels, just as they would expect from other services such as their utilities and banks. The Council provides lots of services to people of varying needs. Some services are provided to all, whilst others are tailored to need. It must invest in improvements to technology to meet the diversity of customer demand for services. Accessible, easy to use online services and processes that are designed from a customer perspective will keep customers updated and manage expectations.
- 1.8 In 2016, the Council’s Revenues and Benefits application forms were moved online and to date nearly 55% of those customers have now successfully moved to transacting with the Council online and this number continues to grow. This trend can be replicated across our services and reflects how the way customers want to interact with the Council is changing.
- 1.9 At its meeting of 21 June 2017 (Report C/17/15), Cabinet approved the commissioning of a report to look at a new future operating model for the Council which places its focus on our customer service through improved efficiency for the organisation and the use of technology.
- 1.10 To help take this work forward, the Council appointed the change consultancy, Ignite, to consider the application of a future operating model. Ignite are a recognised leader for change in the local government setting, having successfully worked with a number of local authorities including Eastbourne, Eastleigh, South Hams and West Devon. The premise of Ignite’s future operating model is to enable Councils to support their communities by delivering the right outcomes with great customer service on a lower cost base.
- 1.11 The Corporate Director of Organisational Change was appointed ‘project sponsor’ and an internal project core team established and led by the Head of Transformation (currently seconded from the Head of Communities post) to oversee the project’s development and management. This work was undertaken between September and December 2017, whereby a blueprint was developed to outline the potential opportunity to the Council. At this stage, the

blueprint (see Appendix 1) only provides a high-level outline of the potential opportunity to the Council and further detailed design work will need to be progressed subject to Cabinet's decision to proceed with implementation.

- 1.12 The Leader and the Deputy Leader of the Council agreed to champion the project as it has far-reaching benefits for the Council, increasing its capacity to work in a different way, utilising resources more effectively and delivering the best possible customer experience. Their support has significantly strengthened the holistic and strategic direction required for the project to be successful. It was agreed a further report would be made to Cabinet on 28 February 2018 to present the final business case, followed by Council regarding the overall budget required.
- 1.13 Both the Leader and Deputy Leader have been kept abreast of the blueprint's progress, including a visit to South Hams and West Devon Councils in November 2017, where a similar model has been successfully implemented. A further briefing was provided informally to Cabinet and Overview and Scrutiny Committee in November 2017, alongside specific updates to the respective Cabinet Members for Finance and Customers and Digital Delivery. The proposed model's emphasis on 'putting the customer first' has captured member support and it will be important to ensure Transforming Shepway provides a continued efficient and high quality service to our customers.
- 1.14 As a result of this work, a new model has been designed which will deliver services in a new way making the Council more flexible and customer focused and give the customer a better experience of what it does, allowing them to be more in control of what they want from us. The new model will fundamentally change our service delivery model enabling the Council to reduce costs through improved business processes, whilst investing in our frontline services to meet the demands of customers and communities. It will ensure that the Council delivers a value for money solution to the taxpayer, delivering quality services at the lowest possible cost.

2. INTRODUCTION

- 2.1 The Council's transformation project is known as Transforming Shepway. Its vision, agreed by CMT, supports 'Delivering more of what matters with less'. The project was launched in September 2017 with the aim of developing a Council that is efficient and fit to serve its community and meet the aspirations of residents, in the context of reduced resources. In particular, the Council wishes to, as far as possible, maintain its excellent services and corporate ambitions, whilst avoiding being in the position of other councils who are cutting service levels and their aspirations in an effort to simply reduce costs.
- 2.2 Working with Ignite, the Council examined the potential of a new delivery model to support meeting our corporate priorities identifying the following objectives for the project:
- Understanding our customers better and design services to meet their expectations
 - Supporting the delivery of our corporate plan to meet communities' needs
 - Helping to deliver the Council's efficiency target
 - Realising the benefits of state-of-the art technology and systems
 - Opening up career opportunities for staff
- 2.3 To meet these objectives, CMT agreed with Ignite that the future operating model would look at the following four key areas:
- The organisational model
 - Customer journeys and processes
 - Technology
 - People, culture and ways of working
- 2.4 Transforming Shepway's development stage has identified a number of project deliverables:
- Deliver a new model of public service delivery
 - Improved customer processes enabled by digital technology
 - Deliver a year on year reduction in net expenditure
 - Implement new methods of service delivery including changing behaviours of customers
 - Continue to be ambitious - delivering high quality services and major projects
 - Enable a workforce with the skills, behaviours and abilities essential to delivering high quality public services
 - Preserve our "can do" friendly, culture
- 2.5 Service, process and digital redesign, alongside customer enabling and staff empowerment and development will form a crucial part of the Transforming Shepway project.

3. PROCESS

- 3.1 The project has examined all Council services for their potential to be redesigned and digitally enabled and to come under a new operating model. At present, it is recommended that frontline operations (where applicable, excluding management posts) of Grounds Maintenance, Lifeline, Waste and Hythe Pool remain out of scope for redesign, other than how they interact with service requests by customers. Work, however, will continue in ensuring that these services are delivered in the most efficient and effective way.
- 3.2 In the past three months, more than 60 members of staff from across the organisation have been engaged directly in the process of service redesign, with many more indirectly involved. This approach was essential to getting an understanding of how services currently work, where staff time and resource is spent in delivering aspects of each service, and what the potential is for redesigning services so that they are more efficient.
- 3.3 Throughout this period, the Council has been working with the unions (e.g. Unison) and engaging with staff through a variety of formats and remain committed to this engagement through the lifetime of the project. More than 40 existing members of staff have volunteered to become 'Change Transformers'. Their role is to actively ensure their teams are ready, willing and able to adopt change throughout the implementation phase (subject to Cabinet's decision in February).
- 3.4 Services have been redesigned with a view to making them more efficient (financially and in terms processing times) and effective in meeting customers' expectations and the Council's ambitions. In order to achieve more efficient and effective services, everything the Council does has been examined at a high level to consider how:
- to prevent and reduce demand through enabling customers and communities to serve themselves or by dealing with things before they turn in to a service request
 - services can be modernised, streamlined and made more efficient by having a more joined up approach to service delivery, less traditional council service divisions and common technology, processes and roles
 - to improve access to council services and information for customers
 - to ensure the earliest possible resolution of customer enquiries, reports and requests
 - to shift work forwards in the organisation towards customer facing staff and thus ensure more efficient use of staff and freeing up professional staff to concentrate on work where their expertise is really needed
 - to provide an accessible and actionable feedback process so customers can track their service requests, know when they will be dealt with and receive feedback when the work has been completed
 - the Council will improve its systems and measurement of performance with a view to driving improvements for residents and other customers
 - the Council will ensure a sustainable level and quality of services it can provide in the context of declining resources

- to ensure it has skilled, knowledgeable, empowered staff with attitudes and behaviours that support the delivery of modern customer focussed services;
- and that it provides improved career opportunities and development for staff

3.5 The blueprint provides an indication of the potential opportunity to the Council. However, it has helped to build the revised business case, which forms the basis of this report. Where the blueprint has provided some assumptions around the cost analysis (including technology) and the high level function design, this report has considered the blueprint in more detail, using officer knowledge and expertise bespoke to the Council.

3.6 Ultimately, the Transforming Shepway future model will be designed and owned by this Council and aligned to its ambitions and future needs.

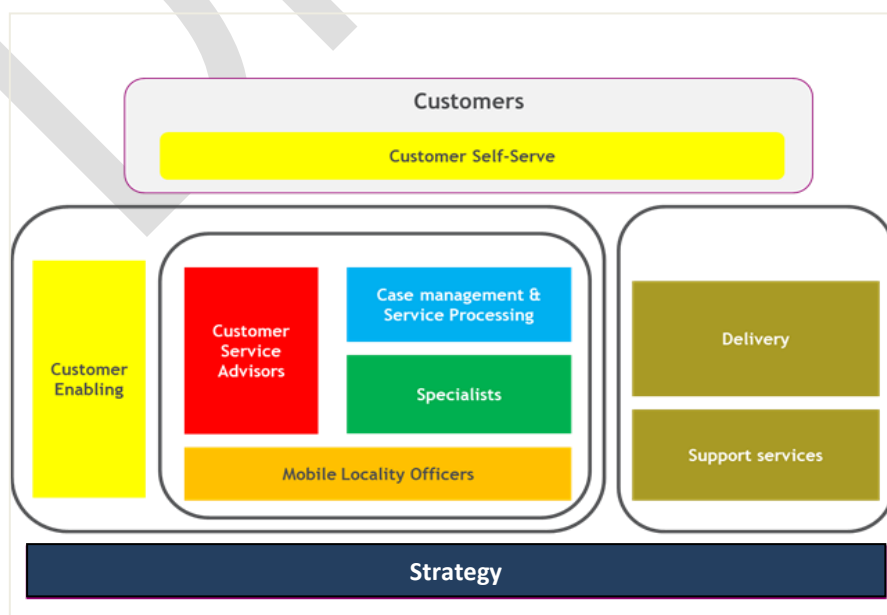
4. NEW OPERATING MODEL

4.1 As a result of the analysis of services a new operating model for the Council has been proposed which is set out below. This should not be confused with a management structure. The operating model is instead, the way of managing service requests and other work across the organisation.

4.2 This conceptual framework forms a starting point for the design of the future operating model; challenges and considerations specific to the Council, which have been addressed through the blueprint. The key components are shown in the diagram below.

4.3 Future Operating Model

The Future Operating Model provides a completely new operating structure for the Council underpinned by refreshed processes, roles, technology, ways of working and culture. It will support translating the Council's political will, maintaining investment in priority areas and improving services to customers.



4.4 The **Strategy** element of the operating model is concerned with:

- defining the ambition of the organisation in terms of services and projects
- ensuring there is evidence based strategy that meets our communities' needs
- well planned services that ensure political ambitions are delivered efficiently and effectively

Strategy is both the activity and resource to translate insight and ambition into the Corporate Plan and major strategies, ensuring that the Council remains unique, accountable and capable. It will provide a 'single' brain to the Council, responding to political will and ambition and ensuring this is turned in to evidence based strategy. The key components of the Strategy are:

- **Strategy, Performance and Communications:** Setting the corporate strategy and priorities, ensuring these are based on evidence (what the district needs and what residents want). Ensuring services, programmes, projects and employees are working towards a common set of outcomes as specified in the Corporate Plan. Building a sound evidence base of data, analysis and interpretation to support the wider work of the Council. Keeping internal and external customers informed about Council priorities, services and campaigns, lead the engagement of our customers, provide a corporate marketing function to the Council including customer data and trends and promotion of commercial and income generating services, and place based marketing to support inward investment and economic ambitions.
- **Law, Governance and Democratic Services:** Provide expert legal advice on the full range of Council responsibilities and public sector duties Provide member support, working to ensure that the Council's governance and democratic processes are efficient, work effectively and support the ambitions of the council. Set the Constitution and governance of the council, ensuring that the Council is efficient, transparent and accountable to local people.

4.5 **Service Delivery** is divided across **Customer Enabling, Customer Service Advisors, Case Management and Service Processing, Specialists and Mobile Locality Officers**. Their role is to deliver efficient and professional services to the Council's customers that are aligned to the Council's ambitions managing performance to meet the desired outcomes. The Customer Contact element includes:

- Customer enabling, helping those who want to and are able to resolve their service requests themselves, for example, through an enhanced self-service system based on web and phone applications
- Customer service advice, dealing with as many customer enquiries as possible and resolving most of them at first point of contact, rather than them be referred on to another officer

- Case management which will deal with more complicated requests that may require more than one council service or require to be processed, such as a planning application
 - Specialist services, which is the management of service requests and other council business that requires expert input
 - Mobile locality delivery, having an improved and more visible presence in the district's communities to deal with issues on the ground early and proactively where possible so they do not become service requests
- 4.6 Mobile Locality Officers will work as part of an effective locality team that offers an excellent standard of customer care, acting as an ambassador for the Council, resolving issues where possible on initial contact or otherwise referring to other teams. The Locality team will be at the heart of the Council supporting officers and providing a visible community presence for elected members. They will be able to carry out inspections and gather evidence on behalf of key service areas. This will include delivering planning notices, carrying out dog patrols, assisting vulnerable residents with benefit applications and investigating fly-tipped waste or anti-social behaviour.
- 4.7 Delivery is the front line delivery of many of the Council's services. It is concerned with:
- Efficient delivery of services on the ground (e.g. grounds maintenance), ensuring that there is a strong customer focus to service delivery
 - That a more commercial approach is developed to optimise revenue and grant opportunities
 - That service delivery supports the achievement of the Council's wider objectives for the district and its communities as set out in the Corporate Plan
- 4.8 **Support Services** is concerned with providing business like and efficient support and advice to teams across the Council. These are non-customer facing back office functions, such as Human Resources, Finance and ICT, who support improving performance and support the Council in meeting the Council's ambitions.
- 4.9 Behind this model is more detailed analysis setting out how the model will work in practice and where functions and accountability will sit. The Council will need to develop a new management and staff structure, based on a matrix style of working as opposed to its current hierarchical structure, in order to support the delivery of the model. It is important to note that much of the detailed design of the new services and the processes that underpin them is yet to commence. This will take place in the implementation stage with the involvement of staff, Members and customers, should the Council choose to move to the new model.

5. ACTIVITY ANALYSIS

- 5.1 Using the future operating model, all activities across the Council have been mapped, identifying the roles and level of cost involved. This activity analysis

describes activity types and the cost to deliver particular services to customers. A number of saving areas have been identified across the Council in line with the Future Operating Model. At this stage, the numbers are indicative and will be refined further in the detailed design.

- 5.2 The activity analysis took a snap shot in time, as at 30 September 2017, of the full-time equivalent (FTE) posts identified as being in scope for the project. This equated to a total of 269.4 FTEs and a total cost of £10.8 million being in project scope.
- 5.3 The blueprint business case validates some of the assumptions made in the initial business case undertaken for the Council and has involved a wider group of staff in identifying the opportunity for savings. The analysis activity engaged that wider group in identifying areas that could work more effectively and efficiently through the Future Operating Model and the use of new technology. Assumptions were based on key drivers of efficiency that could be made to identify potential savings by each part of the future operating model.
- 5.4 The combination of the output from the business case and the work in the workshops has developed potential options for how the Future Operating Model could be structured and provides a proposed organisational design. Initial draft FTE numbers from the business case have been refined, but would be adjusted and finalised in the detailed design stages of implementation to reflect more involved design considerations engaging more of the organisation.
- 5.5 As a result of the activity analysis, the business case proposes the potential opportunity to reduce the Council's headcount to generate a General Fund efficiency over two years, whilst simultaneously enhancing customer service delivery.
- 5.6 The initial, high level analysis suggests a saving in the region of up to 50 FTE posts, resulting in a potential efficiency saving of up to £1.8 million over 2 years. However, caution must be given to these indicative figures. They give the Council only an indication of what opportunity may be achievable by adopting a new operating model. The activity analysis captures a particular moment in time and the figures below could go up or down depending on future FTE headcount and the opportunities identified to improve service delivery via the detailed design process that would be undertaken if Transforming Shepway is implemented.
- 5.7 The financial case developed by Ignite is focused on generating ongoing revenue saving to the Council, hence there is focus on the General Fund. However, it has also considered external funding or grants (e.g. Kent County Council, Ministry of Housing, Communities and Local Government) and recharges to the Housing Revenue Account (HRA). This funding may be predicated on a certain set of activities or mechanism for delivery and the future operating model design may have to be adjusted to reflect this. This in turn could impact benefit that can be realised which would need to be tested and determined in the detailed design phase.

- 5.8 The combination of the output from the business case and the work in the workshops (discussed under point 3.) has developed potential options for how each area of the future operating model could be structured. These options have then been refined in light of constraints (people, organisational or political) and opportunities, to provide a proposed initial organisational design. FTE numbers will be revised in the detailed design stages of implementation to reflect more involved design considerations engaging more of the organisation.
- 5.9 If Cabinet approval is provided to proceed with the project implementation, detailed design work would then be undertaken as part of the project's phasing over a suggested two years implementation period to ensure the most up-to-date intelligence is used to progress and identify the benefits realisation.

6. HIGH LEVEL STRUCTURE

- 6.1 The blueprint (Appendix 1) provides an indication of the future high level structure. Using this as an indication of the opportunity to the Council, CMT has translated the proposed future operating model into a high-level design bespoke for Shepway, using the analysis exercise detailed in 5. above to identify where efficiencies can be made.
- 6.2 The diagram below shows the potential directorate structure and underlying functions in order to deliver the proposed design and operating model.
- 6.3 All role titles will be subject to review and change. It should be noted that the business case identifies a significant change and efficiency saving within the Corporate Management Team seeing the headcount reduce from 4 FTE to 3 FTE posts.
- 6.4 **High Level Structure – directorates**

Directorate: Strategy	Directorate: Place and Commercial Services	Directorate: Customer, Support and Specialist Services
Strategy, Performance and Communications	Grounds Maintenance	Support Services (Audit, HR, Finance and ICT)
Law, Governance and Democratic Services	Mobile Locality	Customer Services
	Strategic Assets	Case Management
	Lifeline	Specialists
	Hythe Pool	
	Strategic Programmes	

7. FINANCIAL CONSIDERATIONS AND BUSINESS CASE

- 7.1 Having considered the blueprint, the Council has reviewed and set out its financial business case for implementing the new operating model in the table below. This table provides an indication of the profile of spend however some initial costs are anticipated to be incurred during the very end of 2017/18, these will be part of the overall financial envelope noted within the table.

	Year 1 2018/19	Year 2 2019/20	Year 3 2020/21	Total
Costs of Programme:	£	£	£	£
Costs – ICT Infrastructure	750,000	750,000	500,000	2,000,000
Implementation team – recruitment	250,000	250,000	-	500,000
Consultancy cost (IT, HR, customer, process)	215,000	215,000	-	430,000
Transitional Support Staff	150,000	150,000		300,000
Training	75,000	50,000	25,000	150,000
Consultancy Change Support	275,000	275,000	-	550,000
Notional Severance Provision	1,000,000	1,000,000	-	2,000,000
Total Costs of Programme	2,715,000	2,690,000	525,000	5,930,000
Funded By:				
Existing SDC revenue	400,000	350,000	-	750,000
Use of Capital Receipts through capital receipts flexibility	1,200,000	1,200,000	525,000	2,925,000
Financing Exchanges	500,000	530,000	-	1,030,000
Capital financed through borrowing / reserves	612,500	612,500	-	1,225,000
Total Funding (cost/benefit)	2,712,500	2,692,500	525,000	5,930,000

- 7.2 The updated business plan justifies the significant investment required to make change to a new operating model in order to meet the Council's financial challenge head, whilst improving customer service and experience. Improved IT infrastructure and transitional costs such as staff time to implement the changes will see the project require an estimated total budget in the region of £5.9m over the term of the project. Whilst the table outlined above indicates costs arising in the financial periods 2018/19 – 2020/21, the programme will need flexibility over the exact timing of these costs being incurred. Some costs are likely to be incurred during very late 2017/18, in which case these are proposed to be drawn from the flexible use of capital receipts (subject to Cabinet approval). The Medium Term Financial Strategy (report A/17/13) agreed the flexible use of capital receipts to fund the council's future efficiency programme, specifically noting the future operating model transformation programme. There are some important elements to this programme which, however, need to be noted:

- The ICT infrastructure costs are estimated as the detailed programme needs to be set out. The total sum of £2m is an estimate. Based on initial

soft market testing, this figure is likely to reduce. However, this will replace much of the necessary upgrading of equipment and software which would be incurred had the transformation project not taken place.

- There is a significant budget identified for severance costs, which is calculated on all posts in project scope being subject to redundancy costs and associated severance costs. Based on similar projects undertaken by other local authorities, this figure will significantly decrease once accurately determined as the programme progresses.
- The programme assumes a level of flexible capital receipts to be utilised to fund the programme. The government have confirmed this programme will be extended for 3 years from the current 1 April 2019 deadline.
- At an estimated £1.8m per annum revenue savings, the programme will be funded within 3.5 years with an ongoing revenue savings thereafter. Between 2-5 years is considered a standard pay-back period for a project of this scale within local government. However, as the savings are predominately revenue and the costs predominantly capital, there will be a contribution to the councils MTFs position at a much earlier stage.
- The sum of £1.030m (financing exchanges) represents current revenue spending on capital projects. This funding can be used to support the transformation programme whilst the relevant capital expenditure can be funded through borrowing.

Flexible Use of Capital Receipts

The Council has previously adopted the government's Statutory Guidance for the Flexible Use of Capital Receipts. This allows the council to use capital receipts received from General Fund asset disposals from 1 April 2016 to 31 March 2019 on revenue expenditure that is planned to generate ongoing efficiencies and savings, such as the major transformation project, during that period. The government has recently announced a three year extension to this scheme until 31 March 2022 although the detailed provisions regarding this have yet to be issued.

7.3 Capital receipts funding available

The amount of capital receipts currently available equals £570k (£414k balance of Shorncliffe Road plus £156k of new receipts in 2017/18). There is likely to be some early expenditure in 2017/18, and this report seeks authority to withdraw from the flexible capital receipts to fund this expenditure, the current sums held will be sufficient to cover all expenditure possible during 2017/18. Further expected capital receipts are as follows:

- 2018/19: £1.6m
- 2019/20: £1m

The figures for 2018/19 and 2019/20 are estimated rather than expected at this stage. The £2.6m of anticipated capital receipts is consistent with both the approved Budget Strategy for 2018/19 and the MTCP report being presented to Cabinet in January 2018.

7.4 Whilst the financial saving is important in the context of the Council's MTFs, it is important to recognise that there are other reasons for considering adopting

the model in terms of improvement to the business. The benefits of the new operating model can be summarised as:

- It will provide improved service delivery to residents and better customer service standards at a time of reducing resources, with quicker, more accessible, responsive and higher profile services
- It produces genuine efficiency savings rather than service reductions and scaling back our ambition or asking staff to deliver the same with less resources
- The model provides increased capacity to meet the Council's and our communities ambitions in key priority areas and there will be better opportunity to realign the Council's services to its ambitions
- There will be better planned and better informed (by data) service and project delivery
- It supports further development of local area working by providing more responsive, high profile local services able to meet local differences and needs
- The model supports an improved approach to performance management and better delivery on the ground with less resources
- Greater opportunities for career progression for staff – becoming an employer with a reputation for developing careers
- It will strengthen some aspects of the Council, providing greater capacity and skill to ensure Members' ambitions for the Council and the district are well planned and driven through the organisation, translated in to delivery; and that the Council makes better use of the plethora of data available, including what our residents are telling us
- The model will break down the traditional barriers between types of Council services ensuring cross council working focussed on Members' ambition and customer needs

8. ICT

- 8.1 To deliver the proposed scale of change required to deliver Transforming Shepway will not only require the successful implementation of the new operating model, but also a sound technology solution. The primary technology investment required to implement the future operating model is in the integrated, customer focused technology solution that will underpin and enable the new ways of working. Much of the necessary upgrading of existing ICT infrastructure would need to be delivered even without Transforming Shepway. Our equipment and systems are out-dated, expensive to run and resource and not fit for purpose for today's customer.
- 8.2 Therefore, the Council has considered its future ICT infrastructure not only for the purposes of this project, but its broader future. As a result, the Council has recently refreshed its ICT Strategy (see Appendix 2), subject to Cabinet's approval in February 2018.
- 8.3 The council's current ICT strategy was prepared prior to the outsourcing of the ICT service in 2012 and was largely focused on the expectations for the outsourced service and the outline for what eventually became the "Ways of

Working” project. A new strategy is now required that matches the Council’s business requirements for the next 5 years and beyond with technology that is both efficient and cost effective.

- 8.4 The core principles of the new strategy underpin a new ICT infrastructure that is fit for purpose, well integrated, focused on self-service and demand reduction, supports agile working and facilitates improved communications, whilst being secure, resilient and affordable. The strategy looks to the future of ICT support beyond the end of the current outsource arrangements in 2022, bearing in mind the fast-paced changing trends in technology and the council’s ongoing pressure to meet financial efficiency savings.
- 8.5 The strategy is supported by a high level roadmap, which provides a structure and timetable for the delivery of technical solutions. This will necessitate an early review of hardware and systems provision to ensure ICT is fit for its future role and is not simply providing more of the same as that could lead to the council having outdated technology. A fully integrated technology platform is needed to support improvements in the following critical elements of Transforming Shepway:
- customer enabling
 - customer self-serve
 - single view of the customer
 - automated workflow
 - document management
 - mobile solutions
- 8.6 The high level roadmap timeline will be flexible depending on the progress of the project and new requirements coming to light and changing dependencies.
- 8.7 ICT projects take time to properly procure, implement, configure and test. Therefore, it is recognised that the Council has limited capacity to deliver change and those projects that are in direct support of the Transforming Shepway project will be given the highest priority over the next two years.
- 8.8 Initial priority for implementation of systems in relation to Transforming Shepway will be given to:
- The implementation of a new Customer Relationship Management (CRM) system and Digital Services platform and the implementation of a new information management / collaboration platform. These two key elements need to be considered together because customer processes that have an element of document management need to work seamlessly. They provide a single view of the customer through data integration between the CRM and the ‘back office’ data processing systems. All information held about a customer can be seen together. This single view supports more streamlined customer journeys, with fewer handoffs / touch points and issues resolved faster.
 - The replacement of the existing contact centre telephony platform with a new multi-channel contact centre platform.

- The replacement of the digital telephone system in the civic centre with a Unified Communications (UC) telephony platform.
- A range of improvements to the Web Content Management System (CMS)
- Mobile working

8.9 ICT will be a significant enabler in the delivery of the Transforming Shepway project. As the Council moves to ensure its core business is working effectively and efficiently, it will need to find the right tools to support our customers, both internal and external. This has been considered in any budget implications.

9. IMPLEMENTATION

9.1 Such a fundamental change to the way the Council operates will take a time to implement. The plan envisages a 24 month programme from Cabinet's decision in February 2018 to achieve full implementation. A key driver for implementation is the ICT and digital technology upon which the new business model will rest.

9.2 The table below outlines the proposed high level implementation plan. Time is provided in the implementation plan at the front of the programme, to plan and procure the technology before changes start being made to the way services are organised and provided.

9.3 Proposed high level implementation plan

Proposed high level implementation plan

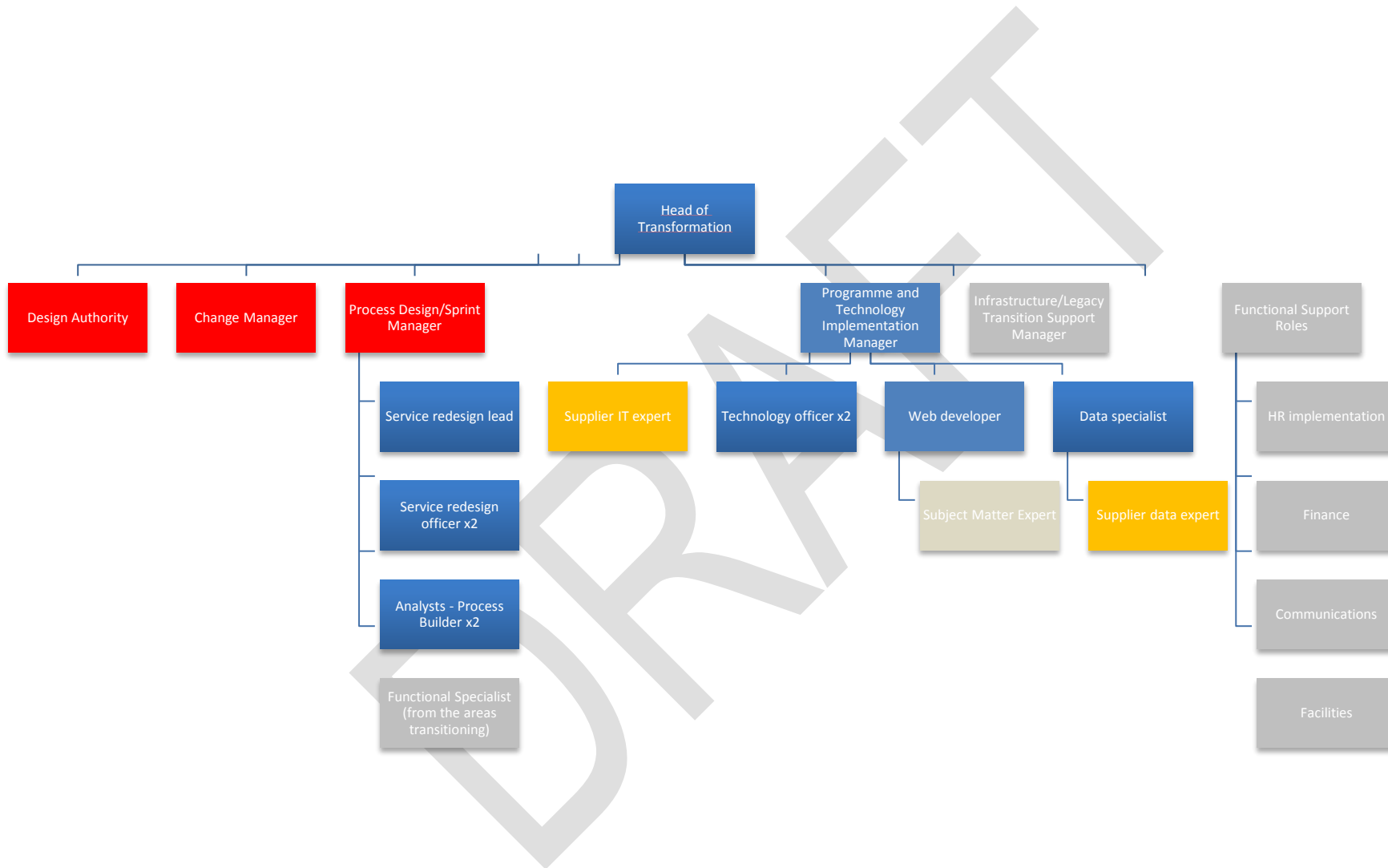
		2018				2019				2020	
Phase	Activity	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Mobilisation	Business Case – Cabinet										
Mobilisation	Project management and communication										
Mobilisation	CMT recruitment										
Mobilisation	Programme set up										
Mobilisation	Implementation team recruited										
Mobilisation	Technology baseline procurement										
Mobilisation	Technology implementation										
Phase 1A	Leadership and management										
Phase 1B	Mobile Locality										
Phase 1C	Strategy										
Phase 1D	Strategic and core programmes										
Phase 2A	Customer services and Support Services (excl. HR and ICT – Systems Support)										
Phase 2B	Case management and specialist services										
Phase 3	Delivery units and commercial teams, HR, ICT - Systems Support										
Phase 4	Data cleansing and migration										

The plan shown represents the calendar year, not the financial year, so some aspects of implementation will occur during the financial year 2017/18.

- 9.4 The detail that sits beneath the high level implementation plan would be developed as part of the 'detailed design' work undertaken if the project progresses into the mobilisation and implementation phasing, which is currently subject to Cabinet approval in February.
- 9.5 This would include developing the detailed organisational design. The emphasis in the Transforming Shepway future model is on generic role descriptions and proposed role families. A role family is a group of roles involving similar types of work and requiring similar levels of training, skills, knowledge and expertise. The role family concept helps organise related roles – roles that are comparable or relate to each other.
- 9.6 Currently there are hundreds of role profiles in the Council, which makes comparing roles difficult and evaluation of roles cumbersome. Having a smaller number of generic roles will ensure clarity and greater equity across the organisation in terms of responsibilities taken on and reward for those responsibilities. It will also make the different paths for career progression clearer and should open up more opportunities for people to develop their careers.
- 9.7 This is important, as the Councils want to ensure it builds a reputation as a place where people will be given the opportunity to develop their careers and be supported in their development.
- 9.8 Following consultation and the detailed design phase, the Council would create specific role requirements to inform the recruitment and selection process.
- 9.9 Detailed analysis of customer journey and process design, technology, people (consultation, recruitment), change and transition management, customer engagement and channel shift would be undertaken in each of the proposed phasing stages.
- 9.10 A benefit delivery plan would be monitored to realise the cash benefits unlocked by implementing the new model, describe exactly when benefits will be realised.
- 9.11 It is recommended that the proposed high level implementation plan is followed with leadership, management and strategy moving quickly to enable the rest of the programme's implementation at a quicker pace and with more engagement. By having leadership and management in place early on in the transformation, they are able to inform key decisions regarding their teams during the detailed design. The transition of leadership and management and strategy is less dependent on the full implementation of technology relative to other areas of the model. The benefits to be realised by transitioning these two areas of the model are significant, which will assist in the immediate budget pressures facing Shepway.
- 9.12 Support Services phasing will be undertaken in Phase 2A, which includes functions such as Audit, Finance, ICT (Systems Support) and Human Resources.

- 9.13 The Human Resources and ICT (Systems Support) teams will have a crucial role in the project's delivery, overseeing key elements. HR will lead on staff consultation, support, assessment, recruitment and training, whilst ICT (Systems Support) will be relied upon to deliver the process redesign, user journeys and implementation.
- 9.14 Whilst it is agreed that the overall Support Services (Audit, Finance etc.) phasing should continue in Phase 2A, it is proposed to separate the Human Resources and ICT (Systems Support) element from Phase 2A and move into Phase 3 to ensure minimum disruption to the teams. This will help maximise the Human Resources and ICT (Systems Support) teams resource and support through the initial project phasing.
- 9.15 A major consideration in the implementation plan is the need to support staff through the process. Shepway District Council benefits from a talented and committed group of staff who work hard to deliver good services for residents and who have been engaged in redesigning the Council's services to arrive at the proposed new operating model. Whilst some roles within the new operating model will change very little, some roles could change significantly, other roles may disappear, and completely new roles will be created.
- 9.16 The Council must be committed to providing the best possible support to staff during the transition to the new operating model. Therefore, a significant amount of resource has been provided in the implementation plan to support staff. This will be primarily devoted to ensuring staff receive a good level of support and advice during a period of significant change and uncertainty for them; and to supporting staff in developing their skills to adapt to changed or new roles.
- 9.17 Another significant consideration within the implementation plan is avoiding disruption to customers during the changes to services, and maintaining as far as possible, business as usual. The implementation plan provides for a dedicated Implementation Team, rather than being reliant on staff members to deliver the changes on top of their normal workload. It also provides for backfilling where staff are required to be taken out of front line service delivery, which will be required throughout the programme in finalising detailed service design.
- 9.18 Additional budget resource has also been allocated for the use of temporary staff during the implementation period to ensure business as usual at all times and minimise any disruption to our customers.
- 9.19 The chart below provides an indication of the staffing resource required as follows:
- Red: Consultant resource
Blue: Additional Shepway District Council staffing resource
Yellow: External staffing
Grey: Existing Shepway District Council staffing resource

9.20 Transforming Shepway Implementation Team Structure



10. BENEFITS REALISATION

10.1 Delivering service improvements and releasing savings is the main design challenge for Transforming Shepway. The programme design and implementation focuses on the following drivers:

10.2 **Remodelling:** including agile working, releases capacity in the organisation through the reallocation of work and better workforce practices and creates the bulk of the projected cost reductions through improving productivity. Higher paid specialist staffs are focused on strategic and judgement based work rather than rules based processing and case management.

10.3 **Demand management:** demand management is about a deeper understanding of the causes of demand and how it may be reduced without lowering service standards. Examples include design of letters to help avoid visits or calls to clarify meaning or to give information, earlier interventions to prevent arrears and targeted work to increase payments by direct debit.

10.4 **Channel shift:** channel shift involves supporting customers to make more use of on-line digital services (self-serve) – which in turn are designed to suit customer preferences and expectations. It is well evidenced that the cost of transactions through a digital / on-line channel are significantly lower than those handled by phone, or face to face. Well-designed public services promote self-help and the empowerment of people – and promoting self-serve online is one aspect of that. The risks of digital exclusion must of course be properly understood and managed.

10.5 **Efficiency:** technology is used to support and enable the redesign of service delivery to achieve greater efficiency through reduced use of resources. Examples include reductions in duplication of work; speeding up processes through automation; automated services request allocation through workflows; supporting mobile and agile working; data sharing of information and faster access to customer intelligence.

10.6 The high-level implementation plan groups the transformation into three phases which informs the timing of the benefit release:

Phase	Description
1A	Leadership and management
1B	Mobile locality
1C	Strategy
1D	Strategic and core programmes
2A	Customer services and support services (excluding HR and ICT – Systems Support)
2B	Case management and specialist services
3	Delivery units and commercial teams, HR and ICT - support services

10.7 It is recommended that this order is followed, with leadership and management and strategy moving quickly to enable the rest of the programme's implementation to move at a quicker pace and with more engagement.

- 10.8 By having leadership and management in place early on in the transformation, they are able to inform key decision regarding their teams during the detailed design. The transition of leadership and management and strategy is less dependent on the full implementation of technology relative to other areas of the model. The benefits to be released by transitioning these two areas of the model are significant, which will assist in the immediate budget pressures facing Shepway.
- 10.9 The blueprint (Appendix 1) maps the realisation of the benefits against the high-level implementation plan in order to show the suggested in year and annualised savings. This phasing approach provides an indication of when benefit is likely to drop based on headcount release. This assumes benefit is not released until the end of the relevant phase, whereas in reality some may be delivered earlier on in the phase.
- 10.10 It is important to note that this report (refer to point 10.6) has reconsidered and updated the project phasing identified in the blueprint. However, the blueprint's suggested benefits realisation provides a helpful indication of the savings that might be achieved and is set out in the table below. The table provides an indication of the potential benefits realisation identified in the initial blueprint from delivering the full programme. Caution must be given to the table below as the phasing will differ and at this stage the figures are only speculative and the true benefits realisation will not be identified until each detailed design stage of the project phasing is completed.

		Indicative saving in 2018/19	Indicative saving in 2019/20	Indicative saving in 2020/21 (ongoing)
Example Phase		£	£	£
1A	Leadership and Support	99,406	397,623	397,623
1B	Strategy and Commissioning	14,014	56,055	56,055
1C	Support Services	76,132	304,528	304,528
1D	Strategic & Core Programmes	11,468	45,873	45,873
2A	Customer Service and Locality Working	0	560,212	746,949
2B	Case Management and Specialist Services	0	154,300	308,599
	Total Savings	201,020	1,518,590	1,859,627

- NB1 – Phase 1A to 1D assumes benefit realisation for 3 months in 18/19 and full realisation from 2019/20 onwards
- NB2 – Phase 2A assumes benefit realisation for 9 months in 19/20 and full realisation in 2020/21
- NB3 – Phase 2B assumes benefit realisation for 6 months in 19/20 and full realisation in 2020/21

- 10.11 The table above suggests that the annualised benefit from transforming the areas in phase 1A and 1B is in the region of £450k. The rationale for additionally including support services in the first phase is similar.

- 10.12 A significant proportion of the annualised benefit of approximately £300k could be realised in 2018/19, helping with the budget pressures. These areas are 'back office' to a certain extent so should be a useful test bed for transition which should not impact significantly on the external customer.
- 10.13 Overall, it is anticipated that the three main components of phase one will deliver an in-year saving of approximately £200k in 2018/19 and an annualised saving of around £800k during the year 2019/20.
- 10.14 The above are at this stage only indicative figures. The project's benefits realisation will be monitored throughout the implementation life course and will be subject to some movement following the detailed design element of each delivery phase.

11. CREATING THE NEW CULTURE

- 11.1 The Council has acknowledged from the outset of this journey that Transforming Shepway would need to create a new culture based on the importance of understanding and responding to the needs of customers and communities and on making it a place where all staff want to work.
- 11.2 To help establish and embed the new culture, the Human Resources (HR) team will work with staff in a series of workshops to develop a set of competencies and behaviours that staff can identify with and embrace. These will support our existing core values, which support what the Council does and the impact on the lives of its customers and communities.
- 11.3 This behavioural framework will form an integral part of how the Council manages performance in the new operating model, for instance by becoming a key component of an appraisal system.

12. CONCLUSION

- 12.1 Transforming Shepway sets out a new potential operating model for the Council that will help it to meet its ambitions to become a more efficient and effective organisation and meet the needs and aspirations of its communities in the context of increasing pressures to reduce costs. This requires a significant change in the way the Council's services are designed and operate.
- 12.2 The blueprint (Appendix 1) has guided officers to develop the final business case, which forms the basis of this report. Officers have reviewed and updated the blueprint's proposals, making judgements as appropriate to ensure the final business case is bespoke to the Council's needs. This includes reviewing the proposed operating structure, directorates, project phasing and investment proposals in order to update the business case based on organisational knowledge and priorities.
- 12.3 There is a strong business case for the Council to implement the new operating model comprising a financial business case with significant efficiency savings, as well as significant other business benefits. An implementation plan has been developed and sufficient resources identified to support the Council moving to the new operating model and realising the benefits but this will require significant

investment by the Council in digital technology and in managing the transition to the new operating model.

12.4 The new operating model enables the Council to protect and deliver modern, efficient public services to our communities, whilst upholding its ambitious corporate projects programme, which encapsulates what it wants to see for the district - a great place to live where people, businesses and communities can flourish.

12.5 The new ICT Strategy will be a significant enabler in the delivery of the Transforming Shepway project. As the Council moves to ensure its core business is working effectively and efficiently, it will need to find the right tools to support our customers, both internal and external. The core principles of the strategy underpin a new ICT infrastructure that is fit for purpose, well integrated, focused on self-service and demand reduction, supports agile working and facilitates improved communications, whilst being secure, resilient and affordable.

13. Resource Implications

14.1 **Resources** - There are no resource implications that are not covered within existing budgets or the finance officer comments below (see 14.4 below).

14. RISK ASSESSMENT

14.1 Some risks undoubtedly exist in delivering such a large change to the way the Council operates. A detailed risk log has been developed and mitigation measures will need to be built in to the implementation plan. The risk log will be actively monitored, managed and updated throughout the programme.

14.2 Perceived risks are as follows:

Perceived Risk	Seriousness	Likelihood	Preventative Action
Delay in programme implementation timetable	Medium	Low	<ul style="list-style-type: none"> • Dedicated team in place and recruitment of specialist, experienced, team members where required to supplement the Council team • Sufficient project resources agreed by Cabinet to deliver programme on time
Not meeting the financial efficiency savings	High	Low	<ul style="list-style-type: none"> • Regular monitoring by CMT and Cabinet • Effective implementation planning to pinpoint milestones and where efficiencies will be released
Programme costs will exceed the current forecasts	High	Low	<ul style="list-style-type: none"> • Programme costs against forecasts will be monitored by the programme board on a monthly basis • Where appropriate fixed price delivery contracts will be negotiated with suppliers

Identified flexible capital receipts are not realised	High	Medium	<ul style="list-style-type: none"> Capital receipts realised by Strategic Development programme will be monitored by Corporate Director for Organisational Change.
IT Delays	Medium	Low	<ul style="list-style-type: none"> Additional time added in to front of implementation programme to plan and procure IT Flexibility built in to programme to bring forward other elements of implementation if delays in some aspects Specialist IT procurement resource built in to programme
Disruption to staff	High	Medium	<ul style="list-style-type: none"> Well-resourced package of support and training built in to programme. Ongoing communications programme
Disruption to customers and business as usual	High	Low	<ul style="list-style-type: none"> Additional resources have been provided for implementation so that the Council is not taking resources from the frontline or from supporting service delivery. Customers input built in to the design process and testing Comprehensive communication plan to keep customers and residents well informed
Impact on Elections 2019	High	Low	<ul style="list-style-type: none"> Timetable and staffing resource required for Elections 2019 are identified against implementation plan. Flexibility built in to programme to bring forward other elements of implementation if impacts are identified. Additional resources provided to support business as usual.
Loss of key people and organisational knowledge	High	Low	<ul style="list-style-type: none"> Talent management plan developed identifying key people and knowledge and puts measures in place to retain these key people. Additional resource built into programme to provide cover in the event of "gaps" arising
Reduced performance in key services	Medium	Low	<ul style="list-style-type: none"> Department risk registers to identify and manage specific service transition risk are being developed These risks will be discussed and iterated with Members and will drive key considerations in the

			implementation plan
The organisation will have less capacity to deliver post implementation	Medium	Low	<ul style="list-style-type: none"> • New approach to delivery supported by technology, simplified processes and more self-service enables the council to deliver 'more for less' • Introduction of more generalist customer service, local delivery and case management teams gives a more flexible capacity to deliver current priorities • The model will enable greater focus on the priorities of the Council • Ensure the Council measures and manages performance focussed on these priorities

14.3 Legal Officer's Comments (AK/DK)

There are no legal implications arising directly out of this report. Further legal advice will need be sought throughout this project so that legal advice can be provided to the HR team and Transformation team as this project is implemented.

14.4 Finance Officer's Comments (CS, LH and LW)

Capital Financed Through Borrowing - this is to meet the estimated £1.225m cost of the ICT infrastructure. However, as the report states, the total sum to be spent on ICT is dependant and the figure quoted is very much a ball park estimate. Dependant on the solution provided, a mixture of reserves and borrowing may be applied. If the amount is funded fully through borrowing, in addition to the interest charge on the borrowing estimated to be £21k per year, the council is required to make a Minimum Revenue Provision (MRP) charge to the General Fund for capital expenditure met from borrowing. The MRP charge is based on the asset life of the expenditure incurred. ICT infrastructure typically has a fairly short useful life of up to 5 years meaning the MRP charge to the General Fund would be £245k per year. The total annual capital financing cost of £266k.

The costs and savings identified under 7 above will need to be carefully monitored throughout the project to ensure they are affordable and the savings are realised. It is likely the profile of the expenditure will change as the project progresses.

14.5 Diversities and Equalities Implications (SR)

The Equality Act is not relevant to the decision in this report as the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. An Equality Impact Assessment has not been carried out.

14.6 Communications Comments (ML)

Internal communications to engage and update staff and members will play an essential part in this stage of the project and will be fully supported by the Communications team.

15. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Sarah Robson, Head of Transformation
01303 853426
sarah.robson@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Ignite New Operating Model Initial Blueprint and Business Case Proposal (31 May 2017)
Cabinet Report: 21 June 2017 (Report C/17/15 – New Operating Model)
Cabinet Report: 31 May 2017 (Report C/17/03 – Updated Medium Term Financial Position)

Appendices:

Appendix 1: Transforming Shepway Blueprint
Appendix 2: ICT Strategy 2018-2023

Shepway District Council

Future Operating Model Blueprint

December 2018



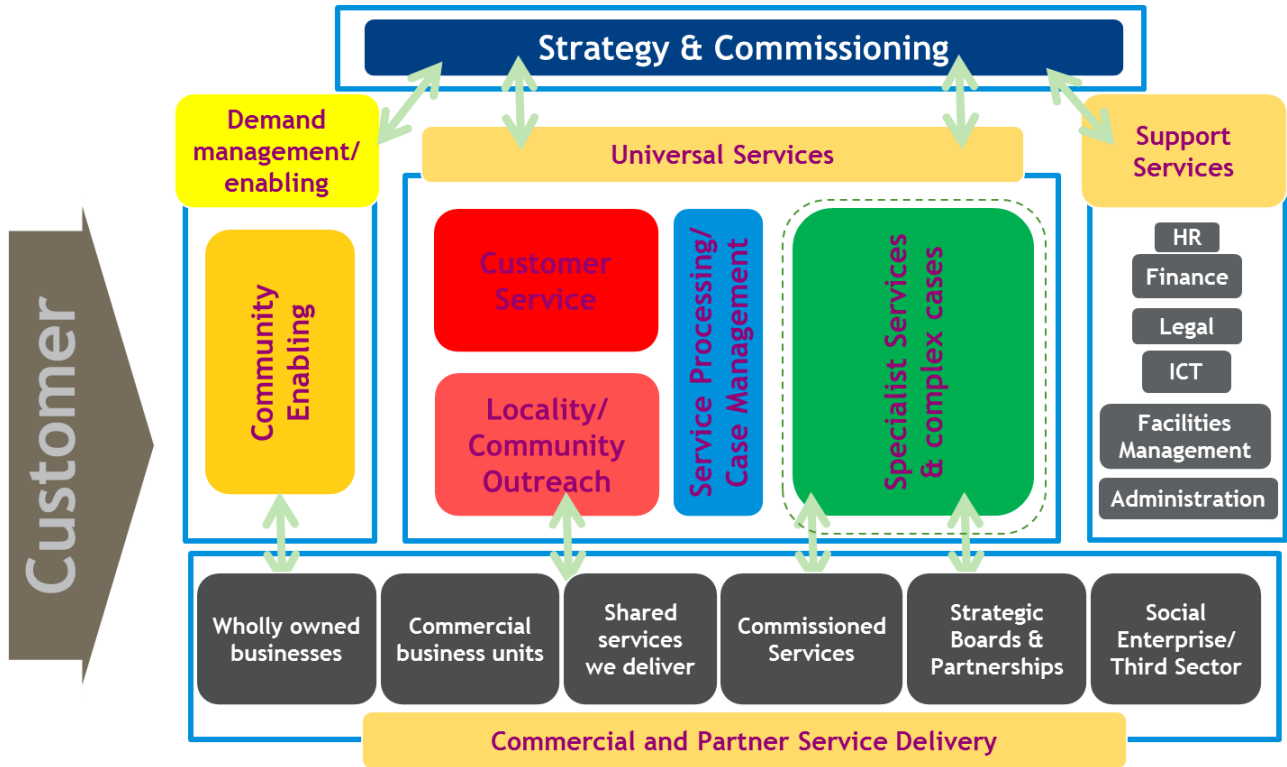
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1. Summary

This document provides the ‘blueprint’ for the delivery of the Future Operating Model (FOM) for Shepway District Council (SDC). It includes a refined business case, an organisational design and an implementation approach and plan.

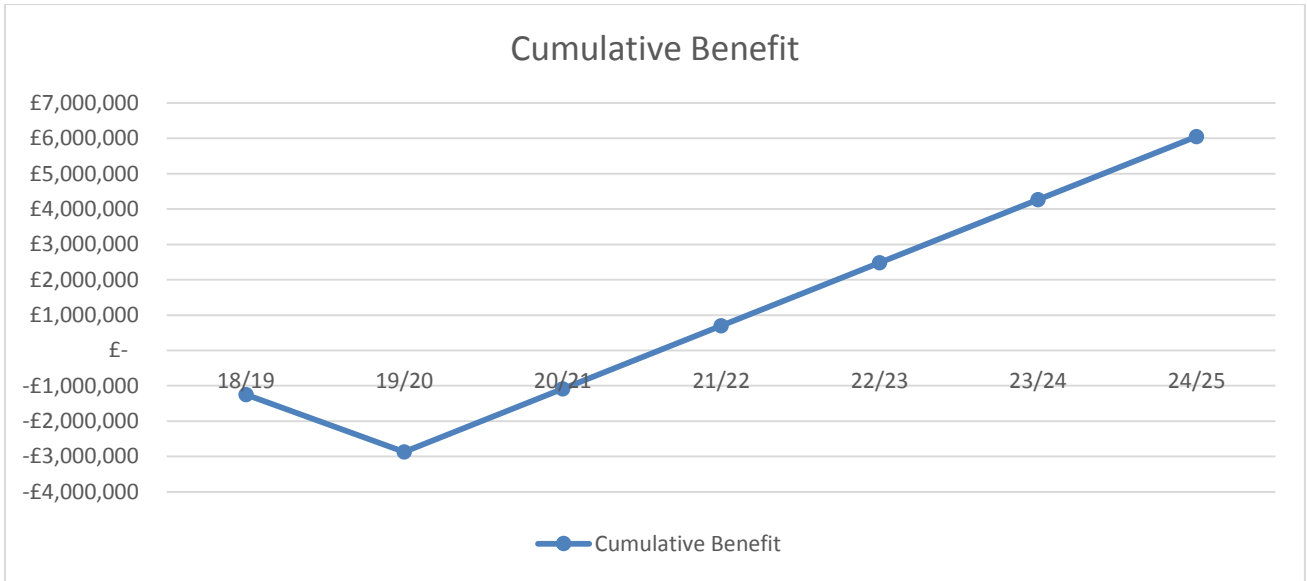
A revised operating model for the council has been developed. This operating model focuses on the types of activity that are performed, unconstrained by current organisational models:



Shepway District Council Future Operating Model

Using this model, all activity across the council has been mapped, identifying the roles and level of cost involved. This activity analysis describes activity types and the cost to deliver particular services to customers. A number of saving areas have been identified across the council in line with the Future Operating Model (FOM). At this stage, the numbers are indicative and will be refined further in the detailed design.

A total of 269.4FTEs (full time equivalents) were identified as being in scope at a fully loaded cost of £10.8M. As a result of the blueprinting exercise, this business case proposes the following position, while simultaneously enhancing customer service delivery. Cost savings relate are broken down by General Fund and Other (including HRA, grants and other potentially ring-fenced funding).



Cumulative saving against the technology and implementation investment costs

2. Introduction

a. Background

During the last 10 years, the public sector has gone through unprecedented change following the global financial crisis and the subsequent introduction of a fiscal austerity programme by the UK Government in 2010. Local Authorities have been very much at the centre of the austerity programme, bearing a greater share of financial savings than any other part of the public sector. Concurrently, expectations of the public for the nature of services Councils provide and the ability to access those services in different ways have similarly changed beyond recognition. This has left councils with difficult choices about reducing levels of service, changing or reducing the ambitions they have for local communities or attempting to innovate and change what they do.

It needs to be recognised that advances in technology and changes in customer and resident behaviour mean different forms of service delivery organisation are now possible and customer's expectations of different types and levels of service are changing significantly. The business sector (e.g. retailers and banks) have started to embrace different ways of working, and provide services through different routes and this has been embraced by parts of local and central government (e.g. DVLA). The key lesson from the business sector is that benefits cannot be bolted on to existing business models and service delivery; the whole business and operating model needs to be reviewed and transformed.

Officers from Shepway have worked with Ignite over the last four months to analyse and understand the activities it does and to identify where the opportunities for a new and different operating model are. This work has involved a mixture of employees from across all service areas participating in workshops; undertaking detailed analysis of activities completed and a review of the processes and systems that are routinely used. This analysis is the basis of this Business Case.

b. Objectives and scope

Shepway District Council has a clear, concise corporate plan which is understood and drives the council's activity. Its ambition 'Investing for the next generation, delivering more of what matters' has been central to driving the council's key strategic objectives and priorities for delivery. The Council has worked to transform and change the way it is internally organised and has explored and implemented a range of different improvements to the work it delivers.

The 'ways of working' transformation programme was delivered and attempted to introduce wholesale changes to put the customer first, make efficiency savings, improve performance and have a positive customer service impact whilst taking into account that the Council had to provide efficiencies. Some key processes and shifted practice in some areas of the council, but its success was mixed, and its impact has been very variable.

As part of this Blueprint phase Shepway's Corporate Management Team (CMT) built on this previous work to clarify the vision of this programme, exploring what was important for the organisation to focus on as part of this work and to develop the potential for a vision to succinctly describe the programme. Given the whole-organisation focus, CMT decided to adopt 'Transforming Shepway' as the vision for the programme as a whole, while retaining the current corporate plan.

This Blueprint comprises the following areas which are have been included in this work:

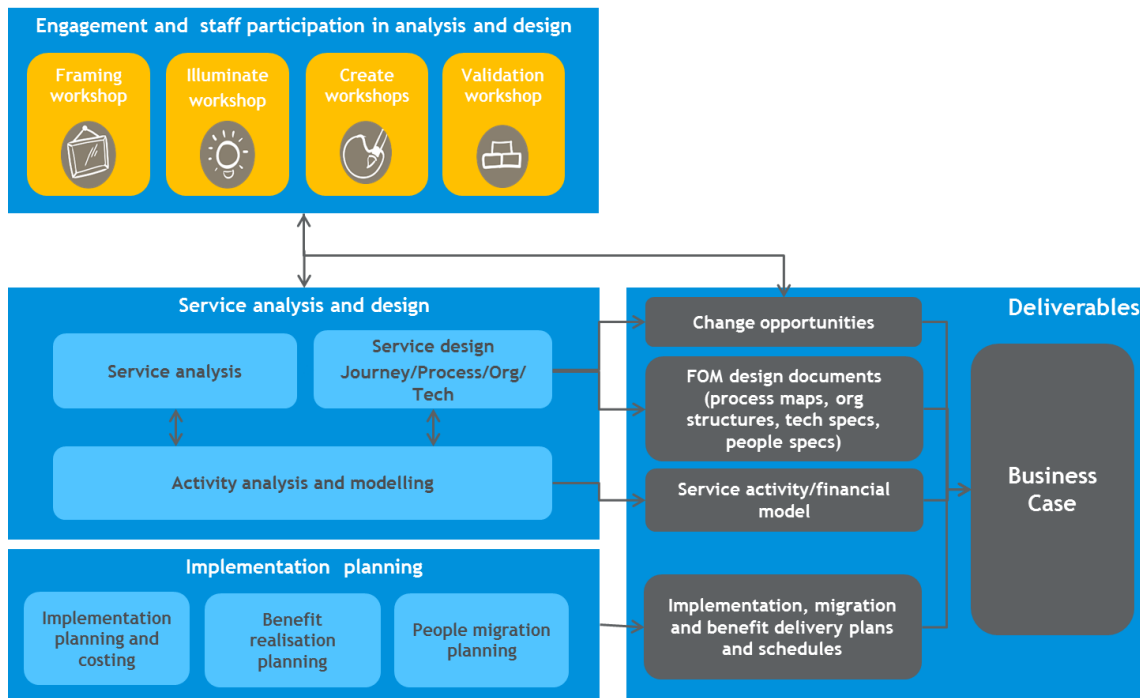
Team	FTE	Comments
Accountants	16.45	
Building Control	4.00	
Business Support	22.82	
Business Support - Systems	11.04	
CMT	4.00	
Communications	5.14	
Community Services	6.70	
Corporate Contracts	5.00	Hythe Pool operatives out of scope
Corporate Debt	10.30	
Customer Services	37.53	
Democratic Services	5.50	
Development Management	16.41	
Economic Development	5.00	
Electoral Services	2.00	
Engineers	5.00	Internal Maintenance Officers out of scope
Environmental Health	8.00	
Environmental Protection	7.00	
Grounds Maintenance - Other	3.49	
Housing Options	11.02	
Housing Strategy	6.60	
HR, OD & Payroll	7.92	
Land & Property	4.00	
Leadership Support	5.81	
Legal Services	6.00	
Planning Policy	8.61	
Revs & Bens	24.73	
Strategic Development	9.00	
Technical & Commercial Services	4.81	Manager posts (including Lifeline)
Transportation	2.00	
Waste Contract	3.49	Waste Management team out of scope
Total	269.37	

Summary of scope of the business case

The funding source for each of these full-time equivalents needs to be considered so that officers and Members can interpret how savings identified in transitioning to the new ways of working can be realised.

c. Approach

The following sets of engagements, analysis and design, implementation planning activities were undertaken to produce this Blueprint:



Components of the blueprint activity

This 'Blueprinting' phase builds on the initial business case work and delivers:

- A revised business case (based on detailed service by service activity analysis, refined maturity assessment and cost analysis, including technology)
- A costed Target Operating Model for Shepway, aligned to the Future Model, including initial organisational design, role descriptions and technology model
- High level plan for implementation

Our approach to developing this Blueprint has focused on three areas. Firstly, refining the activity analysis detail from the initial business case phase, by analysing the activity of all service areas in scope, using data provided by approximately 35 service area representatives working with colleagues from across the council. Secondly, we have run a range of workshops to support the wider workforce's engagement and understanding with the general principles and approach that the FOM takes, enabling those participants to grow their own understanding and provide challenge and thought to the implementation of the model in Shepway. Finally, we have focused on key areas with smaller working groups set out in the first Create session, some of which were explored in more detail in small working groups:

1. Locality and mobile working
2. Customer enabling
3. Leadership & management
4. Support services
5. Managing performance
6. Values and behaviours
7. Themes not teams
8. Strategy and commissioning

The Blueprint business case validates some of the assumptions made in the initial business case and has involved a wider group of council staff in identifying the opportunity for savings. The analysis activity engaged that wider group in identifying areas that could work more effectively and efficiently through the FOM and the use of new technology.

Assumptions based on the key drivers of efficiency can then be made to identify potential savings by each part of the FOM. These drivers are explained later.

The combination of the output from the business case and the work in the workshops has developed potential options for how each area of the FOM could be structured. These options have then been refined in light of constraints (people, organisational or political) and opportunities, to provide a proposed initial organisational design. We have populated the organisational design with initial draft FTE numbers from the business case to refine management levels and spans of control, organisational anomalies (e.g. small functions combining) and any geographic requirements. FTE numbers will be revised in detailed design stages of implementation to reflect more involved design considerations engaging more of the organisation.

3. Future Operating Model

a. Operating Model v Organisational Model

The Future Operating Model (FOM) provides a model of how the council delivers services to customers and how the customer will interact with the council. This provides the rationale for how the work is done and what types of roles are required to deliver the work. The business case generates the required numbers for each role to deliver the services required.

The organisational model provides an internal framework for how the council organises itself to deliver the operating model. This organisational model sets out where the work gets done, and by how many of each role. This drives considerations on spans of control, levels of seniority within role families and management structures required.

Inherently there will be choices the council will need to make within the organisational model that will require iteration during implementation. The Blueprint analysis provides an initial view of the numbers against each area of the model. Based on the choices made, the organisational model will develop through detailed design aligned with the agreed design principles, local constraints and corporate ambition.

b. Design Principles

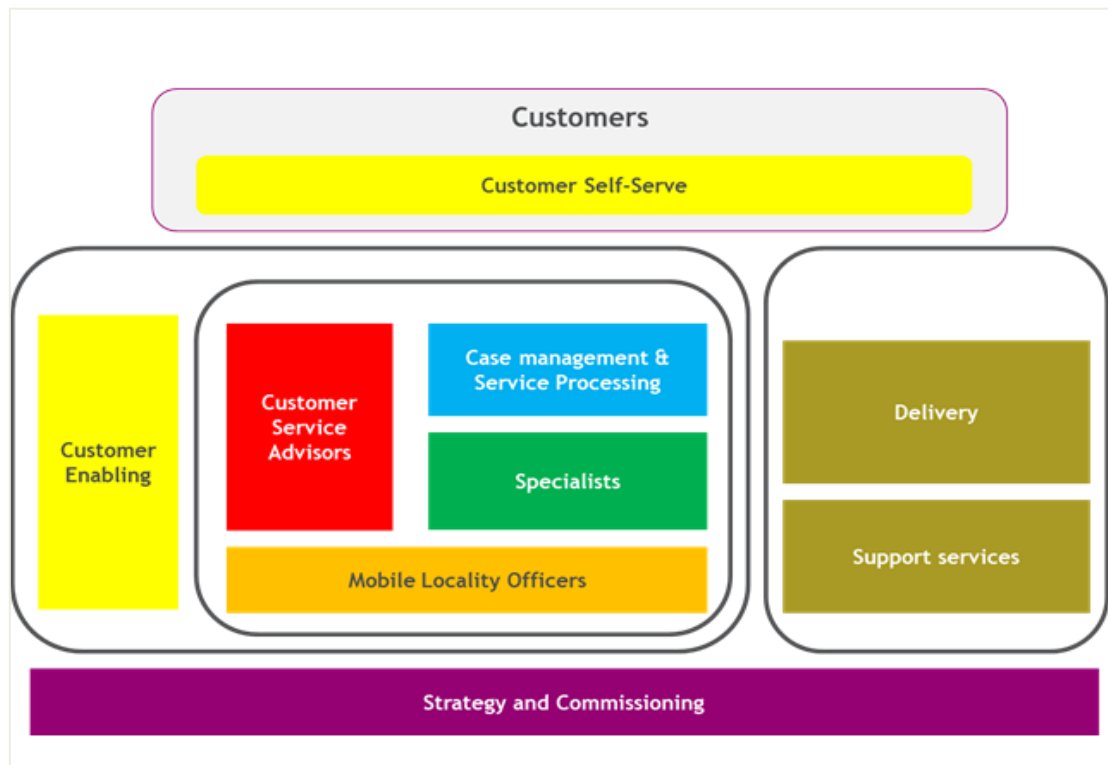
In the development of the operating model, a number of “ground rules” or design principles were discussed to articulate how the new model would operate. These were reviewed in conjunction with the wider participation group to:

1. Focus on the customer experience
2. Fewest steps for the customer
3. Keep customers informed
4. Digital by default
5. Resolve first time
6. Collect less and tell us once
7. Use skills and expertise effectively
8. Efficient working
9. Use technology to ensure compliance
10. Real-time measurement to improve
11. Supporting customers to do more
12. Proactively prevent and shape demand

These design principles enabled people to understand where the council is heading and how things might work if they are embraced. They will be used throughout the proposed implementation to support decision making.

c. Overview of the Future Operating Model

The Blueprint activity started with a conceptual model of the framework:



Conceptual Future Operating Model

This conceptual framework has been established in a number of local authorities. This framework forms a starting point for the design of FOM; challenges and considerations specific to SDC have been addressed through the Blueprint. As a reminder, the key components are:

- **Customers:** different customer groups access services in different ways. Some groups can be encouraged to self-serve online or draw on support from customer service staff only, whereas others may need to access the support of specialist staff more quickly
- **Strategy and Commissioning:** translates community/customer intelligence and political will and ambition into strategic direction, and commissions what's required to deliver this
- **Customer Enabling:** helps the community and customers to help themselves so as to address aims and reduce demand for services
- **Universal Customer Contact:** all activity associated with customer contact, customer service, managing cases, resolving questions and issues (simple and complex), and scheduling input from others where required
- **Delivery:** delivery of core services e.g. waste collection, street cleaning, etc.
- **Support Services:** non-customer facing back office functions, much of which is transactional but some requiring organisational specific intelligence

It should be noted that Shepway District Council has reviewed the Future Operating Model concept and has tailored the key components to be bespoke for its internal and external facing needs as outlined in the table below.

d. Key elements of the Shepway District Council FOM

Key element	Description
Strategy	To be the 'single brain' of the organisation responding to political will and ambition, and ensuring this is turned in to evidence based strategy. Planned services, actions and projects will ensure political ambitions are delivered effectively and efficiently "on the ground".
Place and Commercial	To deliver efficient and professional services through a range of delivery vehicles, aligning to the council's ambitions and managing performance to meet desired outcomes.
Customer, Support and Specialist Services	To provide seamless customer services/support to both customers and teams across the council, improving performance and supporting them in delivering the council's ambitions.

4. Business Case

a. Staffing cost reductions

On the basis of the revised activity analysis, the table below sets out the 'As Is' staffing and staffing costs compared to a 'To Be' or future state following implementation of FOM opportunities.

ToBe Activity	AsIs FTEs	ToBe FTEs	Saving	% Saving	AsIs FTE Costs	ToBe FTE Costs	Saving	% Saving
Leadership, management & supervision	22.4	17.1	5.3	24%	£1,471,153	£1,131,225	£339,928	23%
S&C - strategic cycle, change, corporate governance	17.3	16.8	0.5	3%	£969,372	£940,291	£29,081	3%
S&C - democratic support	4.9	4.6	0.3	6%	£189,710	£178,327	£11,383	6%
S&C - communications, marketing, media	7.0	6.8	0.2	3%	£251,886	£244,330	£7,557	3%
Corporate programmes and projects	12.5	11.7	0.7	6%	£684,908	£643,813	£41,094	6%
Community/ customer enabling	4.5	4.3	0.1	3%	£195,595	£189,727	£5,868	3%
Triage	47.7	32.4	15.4	32%	£1,295,817	£878,723	£417,094	32%
Mobile / locality working	11.8	9.3	2.4	21%	£427,956	£338,952	£89,004	21%
Service processing (rule based cases and accounts)	46.6	36.0	10.6	23%	£1,453,270	£1,122,239	£331,031	23%
Specialist	35.6	30.6	5.0	14%	£1,508,156	£1,294,024	£214,132	14%
Corporate support - triage	4.3	3.4	0.9	22%	£145,726	£114,243	£31,483	22%
Corporate support - service processing, admin	18.1	13.8	4.3	24%	£598,391	£455,504	£142,887	24%
Corporate support- complex advice/cases	18.9	16.3	2.6	14%	£881,561	£760,517	£121,043	14%
Corporate support- governance/compliance	3.1	3.0	0.1	3%	£153,073	£148,480	£4,592	3%
Service delivery	5.7	5.0	0.7	12%	£250,507	£220,446	£30,061	12%
Facilities management	1.1	0.9	0.1	14%	£25,719	£22,234	£3,485	14%
Asset management	8.0	6.9	1.1	14%	£294,521	£254,613	£39,908	14%
Totals	269.4	218.9	50.4	19%	£10,797,318	£8,937,689	£1,859,629	17%

Summary analysis of activities showing 'as-is' and 'to-be' effort and cost

The current FTEs were mapped from the activity analysis spreadsheets and the finance reconciliation of establishment and actual FTEs. As a result of this proposed transition to the FOM, the number of FTEs is reduced by 50.4 (19%) with a corresponding reduction of £1.86M (17%) of fully loaded salary cost per annum (across all funding sources).

The savings identified in the table above are based on a number of drivers which have been applied to the existing services and their mapping of activities to the FOM areas. By structuring the activities of the council into the Future Model activity areas, we can assess the likely benefit that can be achieved in each area from each driver. These drivers were:

- **Demand management (customer enabling);** reducing or shaping demand to reduce the level of service required from customers
- **Channel shift (self-serve);** enabling customers to do more for themselves and reducing council workload in the process
- **Remodelling (new structures and ways of working);** improving productivity and releasing capacity in the organisation through the reallocation of work, workforce optimisation and better workforce practices. This will be achieved by shifting work and knowledge closer to the customer and embedding rule based ‘knowledge’ into processes and scripts, developing agile working and customer centric attitudes and behaviours.
- **Efficiency (technology and process improvement);** stripping out waste and ‘non-value added’ activity from journeys and processes

b. Priority areas for savings

Key areas for savings are aligned with the proposed implementation plan and are summarised below:

Phase	Description	AsIs FTEs	ToBe FTEs	AsIs FTE Costs	ToBe FTE Costs	Saving (FTE)	Saving (£)
1A	Leadership	36.4	31.0	£2,635,811	£2,238,188	5.4	£397,623
1B	Strategy & Commissioning	21.3	19.7	£784,930	£728,875	1.6	£56,055
1C	Support Services	47.4	39.3	£1,897,280	£1,592,752	8.1	£304,528
1D	Strategic Programmes	11.0	10.1	£591,505	£545,632	0.9	£45,873
2A	Customer & Localities	109.5	84.3	£3,375,602	£2,628,653	25.2	£746,949
2B	Case & Specialist	43.8	34.7	£1,512,190	£1,203,591	9.2	£308,599
		269.4	218.9	£10,797,318	£8,937,689	50.4	£1,859,629

Summary analysis of activities showing 'as-is' and 'to-be' effort and cost

i) Phase 1A: Remodel leadership and management activity (£398k)

To support the implementation of the new ways of working, there is a proposed change to leadership and management structure. This new structure delivers leadership, management and supervision across the council through simplifying the organisational structure and embedding matrix management of functional and operational components.

The proposed scope of Phase 1A comprises any role across the organisation down to tier 4 and will therefore allow activities in phase 2 to largely report to the new leadership team as they are intended in the Future Operating Model. In doing this, key specialist knowledge will also be in scope, allowing Functional and Specialist Leads to be appointed.

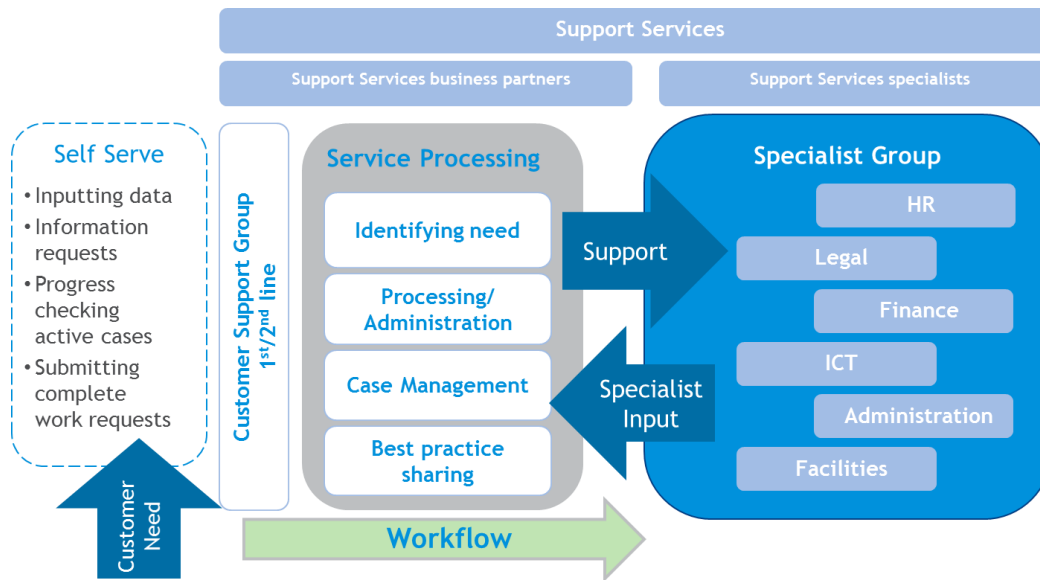
ii) Phase 1B: Co-ordination of strategy & commissioning (£56k)

Strategy & commissioning is currently dispersed throughout the council’s existing structures and while it contains some significant good practice, it is acknowledged that there is some variability and as such, there are opportunities to better co-ordinate and improve.

By centralising a critical mass of this activity, the Council has the opportunity to create a stronger ‘corporate core’. This will operate as the ‘brain’ of the organisation, supporting Members directly to deliver their ambitions for Shepway and providing the evidence-based strategic framework

which can drive all council activity. As part of the first phase of work, the creation of this central ‘hub’ will deliver savings through more effective, consolidated capacity.

iii) Phase 1C: New Operating Model for Support Services (£305k)



New Operating Model for Support Services

The above chart shows the proposed new Operating Model for Support Services; the size of the support services function is large enough to adopt the same approach as in the wider service delivery model.

A number of fundamental changes will need to be implemented in order to successfully deliver this new operating model for Support Services and the full amount of associated savings:

- Elimination and simplification of policies and procedures across the full range of Support Services provided in order to significantly reduce activity in this area where possible
- Capturing significant amounts of information currently held by specialists across Support Services into online portals and self-serve systems, improving information, advice and guidance to enable staff to self-serve easily and effectively
- Expecting managers and staff to self-serve for a large number of simpler support service enquiries and activities that will be embedded into the council’s intranet and automated, giving them enough guidance and support to ensure it becomes genuinely self-serve
- Introducing generalist business partners from Support Services for teams across the council to better direct support activity for these customers

Specific opportunities to reduce the cost of Support Services in a selection of these teams (identified in Illuminate and create sessions) are highlighted in the table below.

Procurement	Improved specifications, improved supplier engagement, greater self-service, 'how to' information advice and guidance
HR, OD & Payroll	Recruitment process - increase automation and self-service significantly; payroll automation and course bookings move to self-service, encourage more self-service around non-complex processes particularly those which are based on information, advice and guidance ('how to?' enquiries for example.
Finance	Manager self-service for budget management and forecasting, automation and simplification of reconciliation processes, budget monitoring, banking, accounts and the management of assets.
Legal Services	Online information, advice and guidance, simplification of key routine processes to minimise the expert input required
Corporate Contracts	Supplier set-up, purchase order and receipting processes automation to increase self-service
Others	Simplify and potentially automate elements of the FOI and complaints management process, reporting timelines and sign off/commenting processes and the booking of training and conferences

[Example opportunities for saving across Support Services](#)

iv) Phase 1D: Co-ordination of strategic & core programmes (£46k)

Strategic and core programmes are currently dispersed throughout the council's operation and normally sit within the most appropriate service area. By bringing these together in one place and drawing in the specialist expertise there is an opportunity for the council to benefit from some economies of scale and deliver benefits by creating greater project and programme management experience and skill, creating a centre of excellence for delivery. The proposed high-level structure would require that the programmes and projects would be delivered by this centre of excellence, drawing on resources from other parts of the organisation as required. The nature and direction of the projects and programmes would be determined through the strategy and commissioning function.

v) Phase 2A: Technology enabled customer service and locality working (£747k)

This significant saving is a core outcome of implementing the future operating model and many of the functional requirements that are specified for the integrated technology solution enable this saving. It is delivered by:

- Centralising a single customer service team for the vast majority of activity - effectively creating a single 'front door' into the council for all customers
- Providing access to a single integrated customer record
- Implementing better scripts to enable more activity to be "one and done"
- Better integrated advice, workflow and data to drive customer service efficiency and effectiveness in leaner processes

Those teams with notable customer service activity that may be able to be scripted and centralised are shown in the table below:

Team	Customer Services FTE (To Be)
Corporate Debt	0.6
Business Support	2.9
Democratic Services	0.3
Electoral Services	0.2
Corporate Contracts	0.1
Customer Services	21.8
Environmental Health	0.5
Environmental Protection	0.3
Revs & Bens	2.1
Waste Contract	0.2
Transportation	0.1
Economic Development	0.1
Land & Property	0.3
Building Control	0.4
Development Management	0.5
Planning Policy	0.3
Housing Strategy	0.2
Housing Options	1.4
Community Services	0.2
Total	32.4

Teams with Customer Services activity that could be centralised

vi) Phase 2B: Technology enabled, centralised case management & service redesign across specialists (£309k)

As with the centralised customer services, this significant saving is a core outcome of implementing the future operating model. It is delivered by:

- Centralising a case management for all activity
- Redesigning processes to deliver majority of cases in a rules-based approach
- Implementing a standardised workflow system across all rules-based processes
- More integrated advice, workflow and data to drive customer service efficiency and effectiveness through leaner processes
- Better utilisation of specialists to manage challenging cases and sign off case work
- Developing professionals with the skillset to deliver high volume throughput of case management activity
- More effective operational management to drive the performance of the case management team

Those teams with notable case management/rules based activity that may be able to be scripted and centralised are shown in the table below:

Team	Case Management FTE (To Be)
Corporate Debt	3.7
Business Support	13.0
Democratic Services	0.4
Corporate Contracts	0.5
Environmental Health	2.2
Environmental Protection	1.0
Revs & Bens	6.3
Waste Contract	0.6
Transportation	0.2
Building Control	0.2
Development Management	4.5
Housing Strategy	0.7
Housing Options	2.5
Community Services	0.1
Total	36.0

Teams with Case Management activity that could be centralised

Components of the new ways of working that will contribute to driving savings across the ‘specialist’ population of Shepway District Council include:

- Separating out the operational (including utilisation) and functional (including professional governance) leadership and management activities
- Providing clearer more co-ordinated strategy, direction and priorities to better harness the efforts of the specialists in the council
- Breaking down the current silos in specialist teams, forming communities of practice to encourage multi-disciplined teams to come together to address the priorities of the council
- Redesigning processes to further reduce the burden on the specialist and focus on eliminating, simplifying, standardising and automating activity
- Joining up and clustering processes to enable significant efficiency to be realised

Several specific benefits from new technology will also be realised including:

- Simpler access to data needed to perform jobs
- More intuitive workflows and systems
- Better integrated technology providing a ‘joined up’ experience
- Better access to systems including through mobile devices where appropriate
- Using the right systems for the right job
- Removing duplication between teams and with delivery partners
- Enabling the right governance and checking environment and ‘right sizing’ compliance type activities

Specific opportunities to reduce the cost of specialist services in a selection of teams (identified by the participants in the illuminate workshops) are shown in the table below. These are examples, not exhaustive, of the areas of work and processes that the detailed design work in implementation would redesign.

Team	Example opportunities
Licensing and environmental protection	Improving the levels of self-service through better information, advice and guidance, shifting some checks and enforcement activity to the locality and mobile teams; freeing up specialists to be focused on the highly complex cases, linking to strategy and commissioning teams and/or community and customer enabling to support behaviour change programmes.
Development Management	Locality and mobile teams picking up placing the planning notices; customer self-service to upload scanned documents; potential automatic (swifter) decision making where possible.
Housing Options	Linking to the community/customer enabling teams to seek preventative action and to work differently with people at risk of homelessness; enabling self-service to be maximised through all aspects (eg offer of property - could all be online) enabling specialists to focus on the truly complex cases which are likely to be creating additional cost for Shepway and other parts of the public sector
Building Control	Increase self-service through additional easy to use tools for the customer, including automatic fee calculator, payment and progress chaser; enabling the specialists to focus on potential income generation and/or the more complex cases
Corporate Debt	Take a joined up, coordinated approach to individual debtors, providing less guidance while being more robust about the shift in behaviour, enabling specialists to focus on the highly complex cases while supporting strategy and commissioning to design preventative campaigns

Example opportunities for saving across specialist activity

Those teams with the highest concentration of specialists in them are shown in the table below with an estimate of the number of specialist FTEs associated with the team's activities in the new model:

Team	Specialist FTE (To Be)
Corporate Debt	2.8
Business Support	0.2
Environmental Health	2.8
Environmental Protection	2.0
Revs & Bens	7.2
Waste Contract	0.6
Transportation	0.7
Economic Development	0.7
Building Control	2.6
Development Management	4.7
Planning Policy	0.3
Housing Strategy	2.8
Housing Options	2.8
Community Services	0.6
Total	30.6

Teams with the highest concentration of specialist activity

c. Phasing of the benefits

Realisation of the benefits has been mapped against the high-level implementation plan to show estimated in year and annualised savings. This phasing approach provides an indication of when benefit is likely to drop based on headcount release. This assumes benefit is not released until the end of the relevant phase, whereas in reality some may be delivered earlier on in the phase.

The high-level implementation plan groups the transformation into three phases which informs the timing of the benefit release:

Phase	Description
1A	Leadership & Management
1B	Strategy & Commissioning
1C	Support Services
1D	Strategic and Core Programmes
2A	Customer Services and Locality Working
2B	Case Management and Specialist Services
3	Commercial and Delivery Units

It is recommended that this order is followed with leadership, management and strategy moving quickly to enable the rest of the programme's implementation at a quicker pace and with more engagement.

- By having leadership and management in place early on in the transformation, they are able to inform key decision regarding their teams during the detailed design
- The transition of leadership and management and strategy is less dependent on the full implementation of technology relative to other areas of the model
- The benefits to be released by transitioning these two areas of the model are significant, which will assist in the immediate budget pressures facing Shepway

The annualised benefit from transforming the areas in phase 1A and 1B is £454k.

The rationale for additionally including support services in the first phase is similar.

- A significant proportion of the annualised benefit of £305k can be realised in 2018/19, helping with the budget pressures.
- These areas are 'back office' to a certain extent so should be a useful test bed for transition which should not impact significantly on the external customer

Overall, we anticipate that the three main components of phase one will deliver an in-year saving of £201k in 2018/19 and an annualised saving of £804k during the year 2019/20.

The following table demonstrates the potential benefits and the timing of them being realised for the full programme.

Benefit Phasing																							
Phase	Activity	2017			2018						2019						2020						
Activity		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Mobilisation	Blueprint published				■	■																	
Mobilisation	Leadership team recruitment				■	■	■																
Mobilisation	Programme set up				■	■	■	■															
Mobilisation	Technology baseline procurement/implementation				■	■	■	■	■	■	■	■	■	■	■	■							
Phase 1A	Leadership & management				■	■	■	■	■	■	■	■	■	■	■	■							
Phase 1B	Strategy & commissioning				■	■	■	■	■	■	■	■	■	■	■	■							
Phase 1C	Support services				■	■	■	■	■	■	■	■	■	■	■	■							
Phase 1D	Strategic & core programmes				■	■	■	■	■	■	■	■	■	■	■	■							
Phase 2A	Customer services & locality working										■	■	■	■	■	■	■	■	■	■	■	■	■
Phase 2B	Case management & specialist services										■	■	■	■	■	■	■	■	■	■	■	■	■
Phase 3	Delivery units & commercial teams																				■	■	■
Phase 4	Data cleansing & migration																					■	■

Phase	Activity	FY 17/18		FY 18/19				FY 19/20				FY 20/21			
In year savings		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Phase 1A	Leadership & management					£397,629									
Phase 1B	Strategy & commissioning					£56,055									
Phase 1C	Support services					£304,528									
Phase 1D	Strategic & core programmes					£45,873									
Phase 2A	Customer services & locality working							£746,949							
Phase 2B	Case management & specialist services								£308,599						
Phase 3	Delivery units & commercial teams														
						In year saving 18/19	£201,020			In year saving 18/19	£1,518,592			In year saving 18/19	£1,859,629
						Cumulative annualised saving	£804,080			Cumulative annualised saving	£1,859,629			Cumulative annualised saving	£1,859,629

Proposed implementation and benefits phasing

d. Implementation Investment

In order to deliver these savings, Shepway Council will have to invest in the transformation. The costs are broadly in two areas: technology and implementation delivery.

Technology Investment

The primary technology investment required to implement the FOM is in the integrated, customer focused technology solution that will underpin and enable new ways of working. Appendix 1 describes the work underway as part of this Blueprint by the council team in order to define the design and cost of the new Information and Technology Solution for the council.

Our work to date in respect of the technology in use and potential areas for focus has suggested that the likely priority areas for investment. The technology cost estimates below are based on our experience of procurements carried out by other councils implementing the model. It will be necessary to undertake market testing followed by a procurement exercise to confirm these costs. It should be noted that the costs below are all implementation (i.e. capital) costs and there will be annual support, maintenance and possibly hosting costs as well (i.e. revenue costs). It is also worth highlighting that the council's ICT strategy, adopted in December 2017, establishes a 'Cloud First' approach, meaning that systems which can be hosted in the cloud will be favoured over traditional on-premise solutions. This could result in lower initial software purchase costs than estimated below but higher annual costs.

Future Model Component	Recommendation	Cost Estimate
A. Website	Retain content management system and improve/redesign website to optimise takeup of digital services, which will largely be provided through B. Customer Portal	£25,000
B. Customer Portal/Forms	Replace multiple systems with one corporate solution	£50,000
C. Telephony	Replace telephony system with new solution plus contact centre management	£100,000
D. Customer Contact Management	Replace Northgate CRM with new solution, integrated with telephony system	£75,000

E/F. Scanning and Document Management	New corporate solution, either part of or integrated with D and G	£100,000
G. Workflow/Case Management	New corporate solution, either part of or integrated with D, E and F	£50,000
H. GIS	Retain ESRI, potentially some additional modules/integrations required	£25,000
I. Back Office	Retain existing systems but integrate better and invest in self-serve for HR/Financials	£100,000
J. Mobile	New corporate solution	£30,000
K. Diary management/bookings	New corporate solution	£20,000
L. Payments	Retain Capita ePay (possible need for new modules/upgrade)	£25,000
Subtotal		£600,000
Supplier Implementation Costs	These typically vary between 100% and 150% of the cost of the software	£900,000
Infrastructure Costs	Currently unknown but potential costs for additional bandwidth/backup circuit for cloud based systems, enhanced security for mobile systems and Sopra Steria services	£250,000
ICT systems, supplier and infrastructure	Suggested contingency	£250,000
Total		£2,000,000

Breakdown of the estimated IT costs

The recommendations above reflect priorities agreed during the discussions and workshops with the council. It should be noted that there is also a strong desire to look at new back office systems and review the website content management system. However, consideration has been given to the council's budget and capability to deliver additional technology change in the timeframe and it has been agreed that the priorities are the telephony, customer contact management, workflow and portal/forms solutions.

Implementation delivery

To deliver this scale of change, there is a need for a range of internal and external expertise to support the successful implementation of this new operating model and technology solution. An initial assessment is described in the table below.

The investment figures are subject to review by the Council and may change.

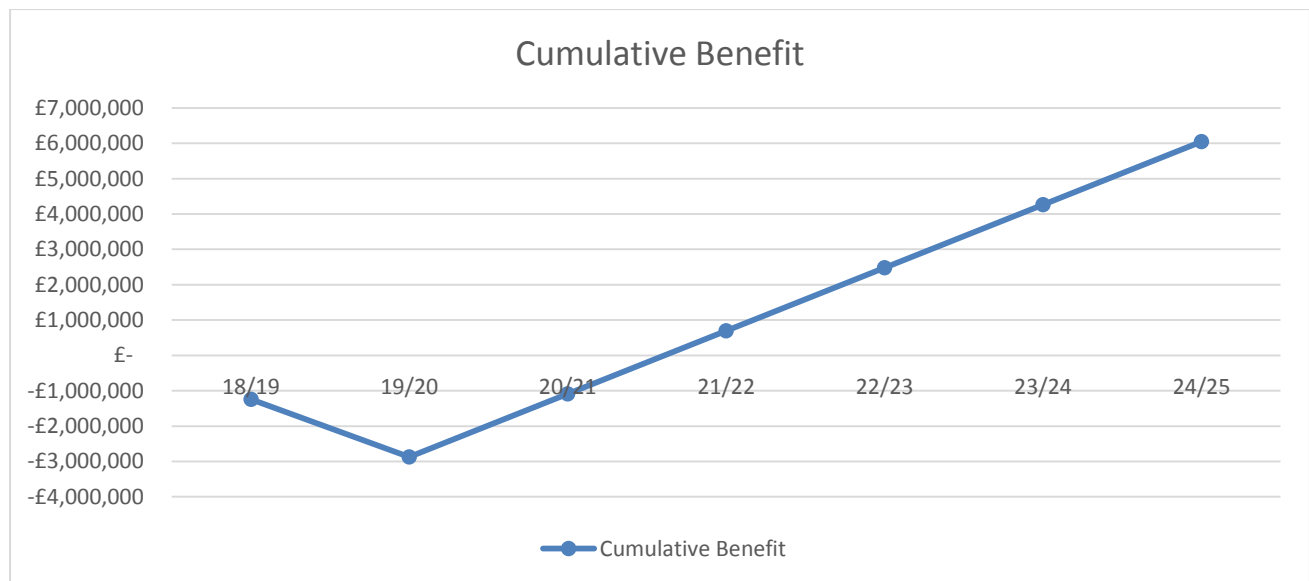
Title	Investment	Description
Shepway District Council resource	£1.25M	<ul style="list-style-type: none"> Business and technology analysts to map processes and develop scripts Functional experts from across the council to specify services policy and ensure that these policies are embedded in the new ways of working HR, change and communications support to ensure the change processes are implemented and the workforce is supported through the change Technology team to support the transition to and integration of the new systems - the shape of which is yet to be confirmed Use of temporary staff to support Business as Usual during phasing <i>N.B. this net investment assumes additional capacity is freed up from the internal workforce in order to support the delivery of this transformation programme</i>
Ignite Change	£0.55M	<ul style="list-style-type: none"> Design oversight to ensure that the aspirations and principles of the Blueprint

and Implementation expertise		<p>are achieved</p> <ul style="list-style-type: none"> • Change management expertise to bring best practice approach to implementing such a complex multi-faceted change programme • Expertise to train, develop and support the wider team in technology implementation • Leadership of the process design, build and test sprint cycles • Business analysis expertise and experience working with other Councils to implement similar transitions
Functional support	£0.35M	<ul style="list-style-type: none"> • Additional HR support including recruitment and selection support to perform internal and external selection • Additional IT capacity to support the implementation and change to systems • Additional leadership and development support
Training	£0.15M	<ul style="list-style-type: none"> • Training and development to transition to new ways of working and to support the adoption of new technology
Technology	£2.0m	<ul style="list-style-type: none"> • To develop and implement appropriate systems
Redundancy Costs	£2.3m	<ul style="list-style-type: none"> • Costs associated with transitioning from the current position of 269 FTE to 219 FTE (to be updated with the pension strain information when available)
Total	£6.6m	

Implementation costs

e. Benefit realisation

The work that has been undertaken has demonstrated that there is opportunity for significant benefits to be delivered should the operating model be delivered in full. To enable this delivery, Shepway Council will need to invest in both the implementation and technology. The return on this investment is shown in the table below; however, the technology costs are yet to be confirmed and will be in addition to the costs presented here.

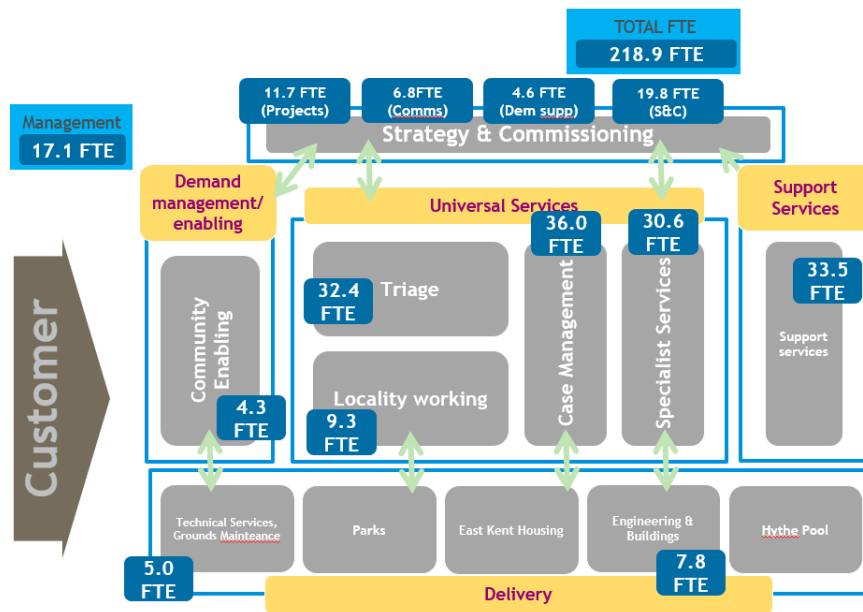


Cumulative saving against the technology and implementation investment costs

5. Organisational Framework

1. Populating the Future Operating Model

The *indicative* FTE requirement for each of the FOM areas is based on the combined requirements of all services and functions. These numbers come directly from the activity analysis undertaken by service teams and are mapped indicatively across to the FOM below:



FOM with estimated FTE of activity

The FOM populated with FTEs now provides the baseline for the development of the organisational model or design. As stated earlier the organisational model provides an internal framework for how the council organises itself to deliver the operating model. There are a number of design considerations, including design principles, how management and supervision is incorporated (i.e. how we embed functional and operational responsibility and accountability), and how we enable further locality based work. These design considerations are included in Appendix 2.

2. Organisational design

As described above, the organisational model is the practical implementation of the operating model to meet the needs of customers and adhere to the design principles. In conjunction with the business case, the assumptions made against each of the considerations above create the rationale for each element of the design including sizing and work type, as well as giving initial indications of spans of control and management.

The requirement for senior management roles can be derived from the overall organisational design and will need to be further developed in detailed design.

The activity analysis by service areas identified the number of FTEs doing management type work. (Note - this does not equate to roles as many roles have multiple responsibilities). At this stage of the design the management roles identified within the FOM have been distributed across the key areas of the model. These will need to be further refined in detailed design.

Potential components of the proposed management structure

Management roles	Description
Executive Director	Executive Director positions providing directorate leadership as well as external relationship role functional leadership (including head of paid service, regulatory compliance and statutory accountabilities). These Directors would make up the Senior Leadership of the council.
Assistant Directors	Providing the strategic, operational and functional management of a delivery area of the council
Manager	Operational management roles where the functional leadership has been explicitly removed under a lead specialist
Lead (specialist)	These roles primarily provide functional/technical leadership for the council in particular areas
Team leader	A supervisor role, managing teams of 8-12 officers

The above proposed structure will be subject to the detailed design process and may see management roles being added or deleted, depending on the Council's business needs and financial demands.

The proposed directorates and underlying functions suggested below are again subject to being considered as part of the detailed design process. Therefore, they are subject to change and must not be treated as final.

Strategy

Strategy:

To be the 'single brain' of the organisation responding to political will and ambition, and ensuring this is turned in to evidence based strategy, and planned services, actions and projects, to ensure political ambitions are delivered effectively and efficiently "on the ground".

Strategy & Insight: To set the corporate strategy and priorities, ensuring these are based on evidence (what the district needs and what residents want). Ensuring services, programmes, projects and employees are working towards a common set of outcomes as specified in the Corporate Plan. Building a sound evidence base of data, analysis and interpretation to support the wider work of the council.

Communications, Engagement & Marketing: To keep internal and external customers informed about Council priorities, services and campaigns, lead the engagement of our customers, provide a corporate marketing function to the council including customer data and trends and promotion of commercial and income generating services, and place based marketing to support inward investment and economic ambitions.

Performance & Governance: To provide member support and working to ensure that the council's governance and democratic processes are efficient, work effectively and support the ambitions of the council. Set the Constitution and governance of the council, ensuring that the council is efficient, transparent and accountable to local people.

Customer & Support Services

Customer Contact:

To deliver efficient, professional and commercially-minded services to the council's customers that are aligned to the council's ambitions, managing performance to meet the desired outcomes.

Customer Services: To resolve a significant proportion of customer queries at the first point of contact, providing accurate advice and guidance; and to proactively seek to provide additional services to customers where appropriate, in support of the council's ambitions.

Case Management: To ensure the council provides integrated services to customers focussed on their needs by acting as a single point of contact to the customer throughout the complete customer journey, and by managing and resolving the vast majority of cases.

Specialist Services: To input in to the design and specification of the Corporate Strategy and associated policies and plans. To ensure professional service delivery in their area of expertise across all parts of the organisation. To resolve complex cases and deliver relevant Council programmes.

Locality Services and Community/Customer enabling: To act as ambassadors for the Council in the community, dealing with customer and business issues, resolving these on initial contact as far as possible or referring to other teams. They work collaboratively with others to improve customer service, develop and maintain deep understanding of an assigned geographic area. They can also gather and record information, place orders, complete applications, undertake site visits/inspections and carry out investigations and enforcement. By helping people help themselves, this team is enabling efficiencies in the rest of the model.

Support Services:

To provide business like and efficient support and advice to teams across the council, in order to support them in delivering the council's ambitions.

Business partnering and Case Management: To act as the first point of contact to internal customers providing a business partnering service across the entire scope of Support Services, managing and resolving the vast majority of cases.

Lead Specialists: To input to Corporate Strategy, specifying the council's policies and accountable for ensuring professional service delivery in their area of expertise across all parts of the organisation. Resolve complex cases and deliver relevant Council programmes.

Some assumptions have been made in terms of designing the Support Services element:

- Organisationally the intention is to match universal customer contact as closely as possible. This will build-in efficiencies for internal customers in the same way as the model does for external customers, which will additionally help embed the same values and behaviours across the whole organisation.
- Once created, this team will perform a thorough review of all administration activity in the Council to build on the business support review, to simplify, standardise and automate where appropriate.

The relationship between locality and mobile team and the customer and community enabling function is vital. They will need to work closely, together with others from within the Strategy function (intelligence/insight, strategic planning) to develop and implement strategies to:

- Reduce demand for services by preventing problems occurring in the first place eg encouraging community mediation, providing better guidance to enable right first-time applications
- Generate and support cultural change across the Council's customer groups and communities so as to help people help themselves where possible, using and applying behaviour insights and behaviour change techniques to shape demand
- Align campaigns, events and programmes of preventative work to make maximum impact

- Encourage and enable customers to use new self-service options - developing programmes to shift access channel use, tracks this shift and to understand what really works to secure the more efficient working practices.

Commercial Services

Commercial Services:

To drive commercial thinking in practice and delivery throughout the council's services, taking lead responsibility for the successful delivery of core and strategic programmes of work as specified by Strategy. Responsible too for the standalone delivery units that deliver core Council services.

Commercial : To build the council's capability and capacity to drive more commercial practice, exploiting the asset base the authority holds to drive up income generation and successfully trade where it is appropriate to do so, as directed by the Strategy function to deliver the core priorities of the Council.

Strategic and Core Programmes: To ensure the council delivers its core and strategic programmes of work successfully as determined by the Strategy function, drawing on specialists from within other parts of the operating model to secure the appropriate levels of subject matter expertise.

Delivery Units: each delivery unit will have a commissioning and performance management relationship with Strategy function, and will be supported through support services. As standalone delivery units, each delivery area will be able to develop opportunities for revenue generation built on a solid business case to create increased self-sufficiency. Delivery units will be required to ensure that commercial and customer focus is embedded in their strategy, optimising revenue and grant opportunities aligned to the Corporate Plan.

Organisational design considerations

The following areas of design are highlighted for consideration in the programme set up phase to inform the detail of the organisational design.

Key design area 1 - Specialist Services

As described in Appendix 3 the FOM is primarily based on the Operational Efficiency value driver. As a service based organisation, the council is also balancing the need to be customer focused against the traditional approach of being organised by service/profession, i.e. product led. How to best structure the teams of specialists will be developed during the detailed design phase in response to the evolving strategic priorities of the council, whilst embedding the matrix management approach adopted throughout the rest of the organisational design. Where this model has been used elsewhere, the arrangements within specialist services have been driven by the concept of 'themes not teams' and are organised around a variation of customer types, corporate outcomes and functional leadership.

Key design area 2 - Local Delivery

Locality and mobile working are a key component of the operating model that is popular with local people and supports a vital link into communities for the Council. It provides a very positive opportunity to build and maintain a strong reputation in all parts of the District and enables local members to feel that they have a clear route into the organisation and support to get things done in their locality. It could be an element of change which is brought forward in the implementation phasing, subject to the technology being available and understanding the implications for other parts of the change phasing.

The opportunity to consolidate and change practice is considerable - but there are some key issues which the detailed design will need to fully understand and addressed. In the create workshops, participants considered these and started to develop a set of 'criteria' to help determine how the teams will work on the ground. These considerations included factors such as:

- How the relationship between the community enabling initiatives that will be 'spotted' on the ground by mobile teams and those that will be delivered as a consequence of interpretation of the data within Strategy teams will work
- Whether or not the community and customer enabling function should be completely integrated into the locality and mobile teams
- How the insight and intelligence gathered 'on the ground' by the mobile teams is shared efficiently with the Strategy team to inform broader service delivery, strategic partnerships and performance management
- Whether or not the model is fully exploiting the opportunity presented and if everything that can be in scope is - some aspect of waste contract delivery, building control and grounds maintenance could be key to building a highly effective team of people working out in the community.

Key design area 3 - Commercial Services

While we have identified a potential structure and approach to this component of the model, it is clear that there are a range of existing programmes and partnership arrangements currently underway which have not yet been explored in full against the new operating model. The key decision is how the council can ensure best, most efficient practice while it also ensures high quality successful programme delivery, enhanced commercial practice and more effective strategic partnerships in the future. Relevant streams of activity include:

- Oportunitas
- LATC
- CLLD
- Temporary Accommodation project
- Development projects
- 'Core' and 'strategic' project delivery
- HRA delivery

The appropriate operating model for delivery of Commercial services, and their relationship with the other parts of the operating model will be explored during the detailed design work of implementation and will consider in detail the outputs from all of these activities. The detailed design will be affected by the nature and longevity of existing programmes of work, relevant commercial opportunities, risk appetite and strategic importance of any given activity, as well as providing the incoming Director the opportunity to participate in the detailed design.

Job Families

Appendix 4 includes a summary of proposed job families that could underpin the delivery of the Future Model. These job families form the basis of all job descriptions and role specifications used in detailed design - ensuring commonality of activity types across the FOM.

6. Implementation Plan

a. Proposed structure of the implementation plan

Key considerations from the Future Operating Model, organisational design and technology specification have been used to build the implementation plan. These considerations drive the proposed high-level phasing of implementation as shown in the summary plan below:

Benefit Phasing																																		
Phase	Activity	2017			2018												2019						2020											
Activity		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Mobilisation	Blueprint published				■	■																												
Mobilisation	Leadership team recruitment				■	■	■																											
Mobilisation	Programme set up				■	■	■	■	■	■	■	■	■	■	■	■																		
Mobilisation	Technology baseline procurement/implementation				■	■	■	■	■	■	■	■	■	■	■	■																		
Phase 1A	Leadership & management				■	■	■	■	■	■	■	■	■	■	■	■																		
Phase 1B	Strategy & commissioning				■	■	■	■	■	■	■	■	■	■	■	■																		
Phase 1C	Support services				■	■	■	■	■	■	■	■	■	■	■	■																		
Phase 1D	Strategic & core programmes				■	■	■	■	■	■	■	■	■	■	■	■																		
Phase 2A	Customer services & locality working																■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Phase 2B	Case management & specialist services																■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Phase 3	Delivery units & commercial teams																																	
Phase 4	Data cleansing & migration																																	

Draft high-level implementation plan

The implementation plan has been designed to run major phases in parallel. This approach is intended to drive standardisation across components within the phases with a common set of deliverables. Phasing in this way will also ensure a smooth transition to ways of working in customer service, case management and locality working.

Phases 1A, 1B and 1C will focus on preparing the council for the wider transformation, while 1D is designed to better understand the nature of strategic and core programmes and their relationships with other parts of the operating model. This is followed by phases 2A and 2B which focus on transforming end-end customer-facing services, and finally phase 3, which will focus on those areas which are currently autonomous delivery units, or contained within outsourced contracts.

The ordering of the phases in this way provides a number of benefits:

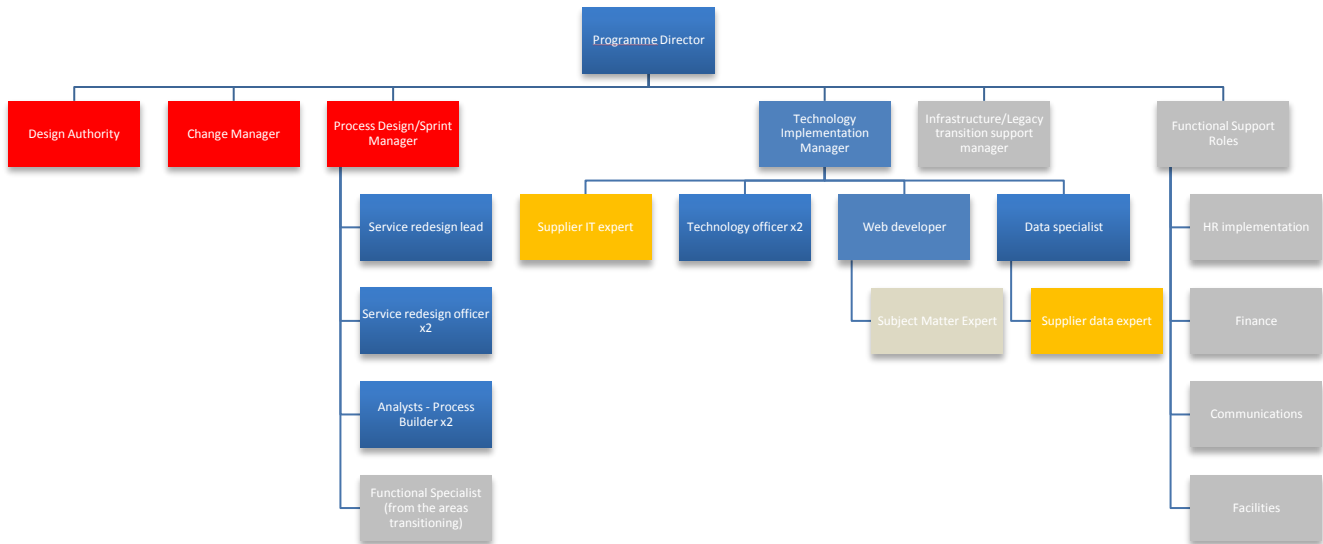
- Reduces reputational risks by transforming services that interact with the internal customer first, learning lessons for these phases before moving onto areas of the council that impact directly on the customer
- Early appointment of senior management roles will provide a team that can drive the change throughout the organisation and act as change champions for the programme
- Transformed Strategy and Support Service functions will be better equipped to support the remainder of the organisation as it moves through its own transformation
- Delivers key technology components and allows concepts to be thoroughly proven before they are deployed across the wider organisation
- Builds the structures around customer interaction that will support the later phases of the programme in delivering the on-the-ground presence and customer enabling functions required to drive efficiencies and channel shift

b. The implementation team

Significant additional resource for implementation has been built into the business case. An initial assessment of what is needed is described below, however, the internal team is likely to be

drawn from a mixture of existing staff that have been seconded, but the council should expect to have to recruit externally for some or most roles to obtain skills it may not currently have in-house.

- Internal programme team to include:
 - Programme management
 - Technology team to support the transition to and integration of the new systems
 - Business and technology analysts to map processes and develop scripts
 - Functional experts from across the council to specify service policy and ensure that these policies are appropriately embedded in the new way of operating
- External organisational design, change and transition support to include:
 - Design oversight to ensure the aspirations and principles of the Blueprint are achieved
 - Change management expertise to bring best practice approach to implementing such a complex, multi-faceted change programme
 - Expertise to train, develop and support the wider team in technology, process and new ways of operating
 - Business analysis expertise and experience working with other Councils to implement similar transitions



Proposed Implementation Team structure

Based on previous experience, the chart above shows a proposed programme organisation diagram that shows the specific roles and teams required to successfully implement the Future Operating Model at Shepway District Council. This will obviously depend on the technology partner(s) appointed as well as the level of internal capacity within the Council, so numbers and focus of roles may change.

c. Core implementation activities

The implementation is phased to last over a period of 24 months. Following the establishment of the implementation team and initial programme set up (detailed in Appendix 3), there will follow a series of phases where the Council will move through a defined and common set of activities to enable the detailed design and implementation for different elements of the operating model.

A summary of an example phase plan is shown below, as well as further detail of the key activities within a phase:

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Phase 1 - Example Plan											
Agree Stage			■								
Detailed Design			■								
Consultation			■	■							
Recruitment - Staff					■	■					
Transition Planning			■	■	■						
Transition Management				■	■	■	■	■	■	■	
Detailed process and User journeys			■	■	■	■	■				
Process re-design (pre-sprint)				■	■	■	■	■			
Technology implementation (build/test sprints)					■	■	■	■	■		
Training - identify requirements & providers					■	■					
Training delivery						■	■	■	■		
Accommodation implementation									■	■	
Phase Sign-off											■

Example phase plan

The detailed design activity involves key stakeholders in the planning of the phase and achieve agreement on key deliverables that are taken to the programme management board for approval before the phase commences. A summary of the typical deliverables is shown below:

Components of Detailed Design			
User requirement definition for phase (what does the outcome of the phase look like?)	Detailed Organisational design	Iterate overall blueprint picture	Key design considerations
First pass at transition planning	Prioritise and cluster processes	Detailed IT Components and deliverables	Sprint plan for phase
Detailed plan for phase	Detailed risk and opportunity log for phase	Detailed budget for phase	Recommendations

Components of Detailed Design

Other implementation considerations are:

- Process and design. Detailed design needs to focus on synergies from across the council in particular:
 - The activity analysis and process mapping undertaken during the Blueprint phase by each service now needs to be refined to ensure the processes are mapped to the FOM rather than 'as-is'
 - Using the detailed process mapping to agree responsibilities and accountabilities
 - Ensuing a common data set
- People and change
 - Developing the organisational designs within the FOM alongside the role specifications to establish and refine person specifications/management levels etc.
 - Embedding the behaviour required to drive the new ways of working
 - Developing the performance management approach to support the embedding of these behaviours
 - Building on the engagement developed in the Blueprint phase to include the wider workforce, creating communication and consultation approaches, obtaining trades union engagement and agreement
 - Creating the management of change framework to support the implementation
- Customer
 - Creating a compelling message for communities and customers to understand and respond to the changes
 - Starting to build resilience and reduce demand
- Accommodation
 - Mapping the organisational design to local requirements and building capability to support mobile and flexible working

Appendix 1 - Technology Solution summary

During the Blueprint process, Officers at Shepway have been developing the new strategic approach for IT for the Council. This work has reached a recent conclusion, allowing us to focus on the business systems that the council currently uses.

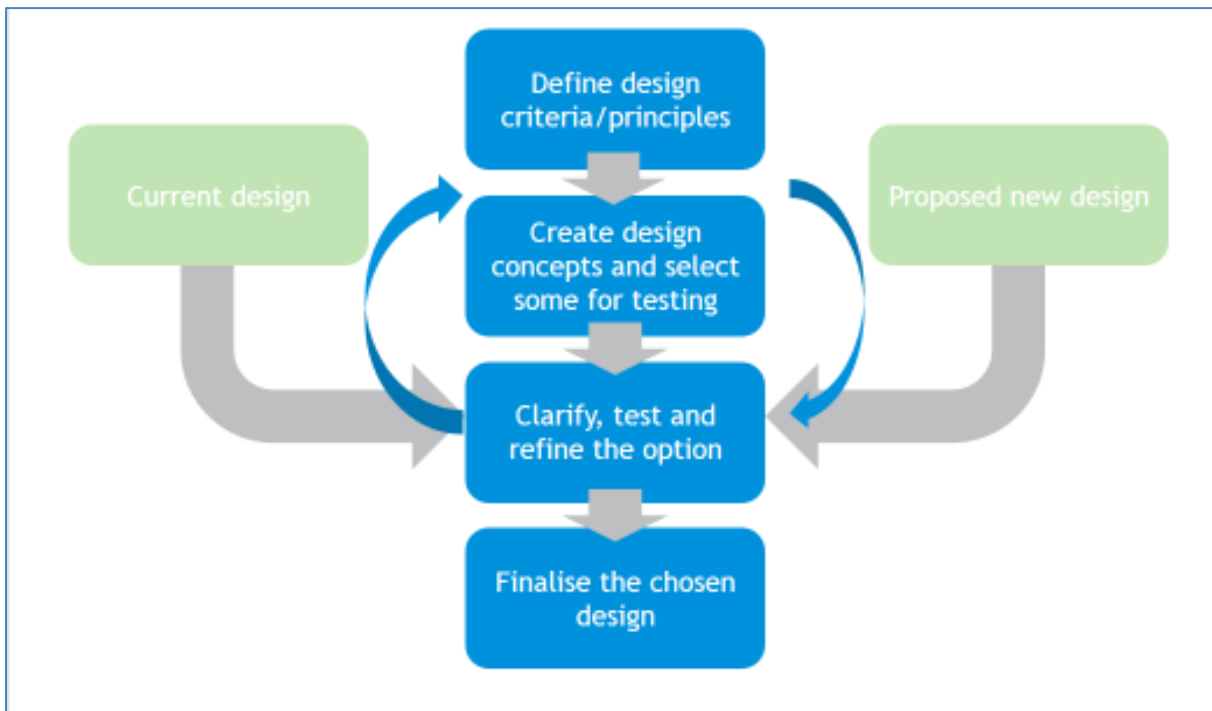
A four-stage technology assessment has been started [Note: at this stage, only stages one and two are complete, this section will be updated once stages three and four are complete] to ascertain the current state of SDC ICT systems, the scope of technology change required to enable the FOM, the potential suppliers and procurement routes and the estimate costs. Final costs will not be known until after the business case has been approved and procurement has been completed.

The four stages are:

- Stage One: How technology enables the model
- Stage Two: Assessment of current systems, infrastructure and capacity, considering what it is that you have against the key components set out below.
- Stage Three: Strategy, resources and constraints
- Stage Four: Agree priorities, market engagement and cost estimates

Appendix 2 - Design Concepts

The following section sets out how the organisational model is developed and explains the key concepts in developing that model. Creating the organisational model is a process of refinement:



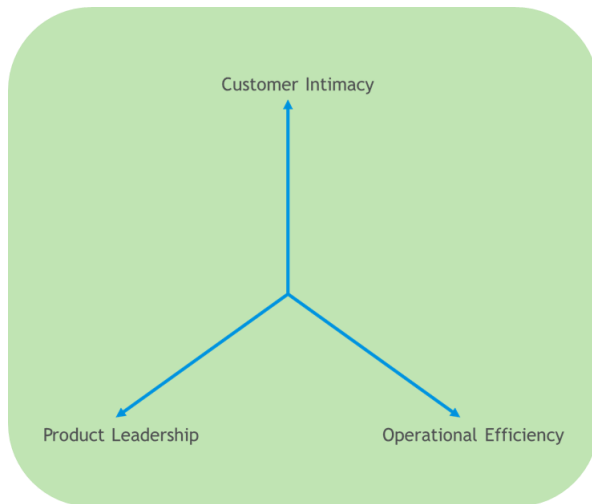
Design Concepts

- **Organisational Principles.** As with the FOM we used a number of principles to articulate how the organisation needed to be designed and delivered:
 - Roles will be as generalist as possible - people are prepared to be, and trained to be able to cover as wide a range of knowledge as possible
 - The right people in the right roles - no compromises or hidden agendas in appointing people with the right skills and behaviours to roles in the new way of working
 - Limit roles specifications to as few as possible, i.e. roles as broad as possible - not 'planner' but specialist
 - Role descriptions and performance management processes should encourage self-management
 - The workforce is flexible to meet changing levels of demand - adaptable to short term needs
 - Customer response is as close as possible to the customer, i.e. their need is met as early as possible in the process
 - The specialist role retains responsibility for:

- Knowledge sharing - ensuring all staff know enough for their role with an embedded process for knowledge sharing
 - The quality and outcomes of the end to end customer journeys/processes across all the universal customer contact teams
- People management and technical/specialist supervision are explicitly separated
- Process improvement is a continuous process and needs to be adequately resourced to ensure customer focus, demand shift and demand management
- **Management/Supervision.** In order to develop the management and leadership structure within the organisational design there needs to be recognition of the different elements of management to be addressed. These are:
 - Generic/pastoral - Pastoral management, performance management, development, career, discipline
 - Technical development - mentoring, quality assurance
 - Resource allocation - scheduling, capacity, priorities, workflow
 - Business performance management - Leadership, overall direction and delivery of objectives and outcomes, FOM development
 - Personal and peer management - Empowerment (to self-manage), time management, priorities, workload, development

The organisational management structure needs to reflect the difference between people management and technical supervision, e.g. a senior specialist (with expertise in licensing) might manage a group of specialists who focus mainly on business customers, but some of these specialists (e.g. planners) might get their technical supervision from elsewhere. Where possible line management roles will incorporate generic/pastoral, resource allocation and business performance, whilst leading on the area of personal and peer management. The organisational design will also provide for functional/technical and professional leadership providing the lead on specialist activity as well as mentoring and quality assurance across the universal customer contact and support services as appropriate. This functional role will also include responsibility for the end to end processes and continuous improvement, particularly in terms of ensuring personnel closer to the customer have the required knowledge and process capability to deliver the customer needs. It will work closely with the line management role to support personal and peer management.

- **Embedding Functional Responsibility.** Complex service provision and advice will be provided by the specialist group, as well as the end to end process responsibility across the universal customer contact and support services. Whilst this line of responsibility isn't explicit within the FOM, the capability needs to be designed into the model.
- A key component of organisation design is how the organisation derives value - the value drivers:



Source: *The Discipline of Market Leaders*, M Treacy, F Wiersama

Customer Intimacy (CI) reflects organisations that focus absolutely on what their customers want (e.g. Amazon) so a customer will come because they get what they need.

Operationally efficient (OE) organisations produce a product or service at the cheapest cost so customers will buy purely because its cheap (e.g. Easyjet).

Product leaders (PL) can charge what they want because their product is in so much demand (e.g. Apple). Although derived on product based organisations, there are

implications for service based organisations as well. Decisions will be based on what is the relationships with the customer, and their expectations of service.

The FOM is primarily focused on the OE discipline, but understanding the potential implications of the other axis will inform suitable options for the organisational design, in particular how to integrate front to back roles across a service based operating model. There will be tension between the three disciplines - for this to be positive it needs to be open and explicit.

Our options for the development of the model will look at how we build in customer centricity (CI) i.e. locality, customer type (e.g. business, high need, place, people) etc., or product focus/service areas (PL), in addition to the OE discipline.

Responsibility for the delivery of functional/service strategy will remain with the specialist areas, rather than be centralised although it is envisaged that there will be considerable overlap and discussion between senior specialist advisers and the Strategy and Commissioning team who will own and co-ordinate the development of functional and service strategy. Detailed design will explore how this overlap works and will define the boundaries.

- **Communities of Practice.** Communities of practice are groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly. They can be internal or external to an organisation, formal or informal. Critically they share 3 common characteristics in that they constitute a group of *active practitioners* with a *shared competence* joining together to create an *active learning community*. We will look to adapt this model of communities of practice to provide an option around functional supervision and career progression, as well as incorporating the requirement to supervise the end to end processes.
- **Geographic Locations.** Each of the three geographical areas have different needs and may need to be addressed differently in organisational design. Options will also be explored in the detailed design for how the delivery units will map delivery to these localities and how other partners, community groups and agencies map to the geographical locations.

Appendix 3 - Implementation Preparation, Team, Detailed Design and Risk Management

Starting well

The process of moving from this Blueprint to full implementation is complex and there is significant preparation that has to be completed. This Appendix sets out some of the key early implementation work and preparation that should be completed.

Programme set up phase

This phase puts in place the main structures that will oversee and manage the delivery of the deliverables and benefits. During the development of this Blueprint, the Ignite team have given officers in Shepway guidance about this work to support them making early progress.

The key deliverables of this phase are explained in brief below:

- **Confirm governance arrangements**
- **Recruit implementation team**
- **All employee briefings on the proposed change programme** - effective communications with staff throughout the programme will be essential in embedding the new organisational culture and preparing staff for the phase in which they will be affected. The briefings will form the initiation of the communications plan for implementation
- **Support for staff through change** - implementing the mechanisms for supporting staff during the programme, which may include internal and external counselling resources that staff can access
- **Training needs for leaders and implementation team** - new or updated skills will be required for the leadership and implementation teams to manage the process of change in the organisation. This activity will include a training needs assessment that looks at organisational knowledge, skills, and abilities, to identify any gaps or areas of need that should be addressed before commencing the main phases of the programme
- **Training plan for the new organisation** - following the training needs assessment, a plan to deliver the required training will be developed, which will also include an overview of wider training needs for staff in the transformed organisation
- **Accommodation and Ways of Working Plan** - The cultural changes required to embed the new Ways of Working will require a plan for transition and cutover, and the impact of each phase on the wider accommodation strategy will be planned out at a high level

Technology 'no brainer' phase

This phase deals with the technology changes, procurement, installation and development that can be carried out early in the programme to embed some of the core functionality required for the early phases and infrastructure required to support the wider technology implementation around the core software products that enable the transformed organisation to operate effectively and efficiently. The key deliverables of this phase are explained in brief below:

- ✓ **Detailed technology blueprint** - this document will outline the required software and hardware specifications and functionality required to be procured or developed during the phases of the programme to support the transformed organisations and operating model.

The document will be utilised in the procurement of technology to support the phases that will follow

- ✓ **Review major application roadmaps and agree plan** - a review and implementation plan for any upgrades to existing software applications, which will be required to support the transformed organisation and in light of Shepway's newly agreed Technology Strategy
- ✓ **On-board missing technology resource** - source and procure any additional skills required to develop and implement elements of the technology set specified in the technology blueprint
- ✓ **Implement suite of infrastructure improvements to support new council structure and functions** - new technology and operating model will require underpinning technical infrastructure to support it and this will deliver the procurement and/or upgrades identified in the technology blueprint
- ✓ **Improve website to promote external self-service model** - the website structure and architecture will be examined and amended to ensure that it is able to support the forthcoming external self-service portal and fully promote the channel-shift objectives. Quick wins will be identified and implemented early to free up capacity
- ✓ **Improve intranet to promote internal self-service model** - the website structure and architecture will be examined and amended to ensure that it is able to support the forthcoming internal self-service portal and fully promote the channel-shift objectives by providing the right platform for high quality information, advice and guidance. Quick wins will be identified and implemented early to free up capacity
- ✓ **Design and build key system integrations** - certain key systems are already in place and therefore work can commence on defining, building and testing integrations between these core systems prior to process redesign work commencing in later phases
- ✓ **Implement integrated quick wins** - procurement or the upgrade to key systems that will support the core technology blueprint can be implemented to create the capability before moving into process redesign. These specifically might include the booking engine, payment engine and the councils Geographical Information System (GIS) software
- ✓ **Design and proof-of-concept for all new end-user software** - this will examine and pilot the options for delivering agile working across the transformed organisation around the areas of user hardware; specifically the use of laptops, tablets, mobile devices and hybrid technology for each set of role families across all phases

Customer Portal and Locality Delivery phase

This phase has two objectives. At first, the Customer Portal is designed to create outputs that will allow the early realisation of programme benefits and free up capacity within the organisation that will aid the transformation journey.

The detailed design process for this phase will identify clusters of high priority processes in phases 2A and 2B where significant early benefits can be realised by:

- Creating front-end customer forms, web site content and access to key customer account information that will promote self-service and channel shift whilst reducing demand through the Contact Centre and face-to-face outlets and into the wider organisation
- Creating scripting and knowledgebase material for Customer Service Advisors that will allow a greater volume and breadth of enquiries to be answered at first point of contact

Identified processes will not have significant technology workflows and system integrations built behind them in this phase, although rules-based work routing will ensure that service requests arrive with the correct department. Service requests will be carried out using existing back office processes until the wider organisation is transformed in Phase 2; when further process re-design will take place and the remainder of the benefit of the process transformation is realised.

Team Roles

Role	Responsibility	Interactions
Design Authority	<ul style="list-style-type: none"> Provides design oversight to ensure that the aspirations and principles of the Blueprint are achieved Executive team and Implementation team coaching 	<ul style="list-style-type: none"> Works with Programme Sponsor to agree scope and vision for each phase Works with Programme manager to shape milestones and delivery Works with CMT and Programme Board, providing advice and coaching to ensure success
Change Manager	<ul style="list-style-type: none"> Change management expertise to bring best practice approach to implementing a complex multi-faceted change programme Expertise to train, develop and support the wider team in aspects of change management and transition planning 	<ul style="list-style-type: none"> Works with Programme Director and Functional Leads to drive a joined-up approach to change Builds and supports the create & construct approach to technology implementation Trains, coaches and develops the Implementation Team Leaders and Analysts
Process Design & Sprint Manager	<ul style="list-style-type: none"> Leads process redesign sprints to effectively transition all council process from old ways of working to new ways of working Train team members in agile development and the sprint process 	<ul style="list-style-type: none"> Leads the process redesign and build teams Works with suppliers to ensure most effective implementation of processes across the integrated systems Supports council teams in adopting new technology and ways of working
Business Analysts	<ul style="list-style-type: none"> Business analysis expertise and experience working with other councils to implement similar transformation programmes 	<ul style="list-style-type: none"> Works with suppliers and other analysts to bring across best practice from other delivery programmes
Additional Support	<ul style="list-style-type: none"> Where there are particular skills gaps in the council, there may be a requirement to draw in additional, specialist support. This could include: <ul style="list-style-type: none"> HR practice Customer and user-led design Technology Engagement - internally and externally 	

External team roles

Team preparation

Training requirements for Implementation Team

Prior to Phase 1, training will be required for key staff in the implementation team to prepare them for the approach that will be taken to process redesign and technology builds. Depending on existing skill and experience, training may include:

- Process mapping approach and use of mapping tools
- Information gathering and script building
- Creating User Cases and Technology requirements for use by the build team
- Building test scripts and User Acceptance test plans
- Roles and responsibilities of agile implementation teams

The full matrix for training and development across roles in the implementation team is shown below:

Who?	Techniques	Tools	Behaviours/skills
Business Analysts	Process mapping Information gathering	Microsoft Visio Software awareness Scripting guide User requirements Technical requirements Website Architecture	Facilitation Challenge Team ethos Positivity Future Model Champion
Technology Builders	Agile approach	Workflow build guide Requirements lists Software training Version control	Team Ethos Attention to detail Accuracy Technology skills
Technology Testers	Building test scripts Edge Cases	User requirements Internal test scripts User test scripts Software training	Attention to detail Persistence Tenacity Team Ethos
Process People		Knowledge of Future Model Workshop rules Software training	Ownership Change Champion

Training and development across roles

Phase implementation - Detailed information

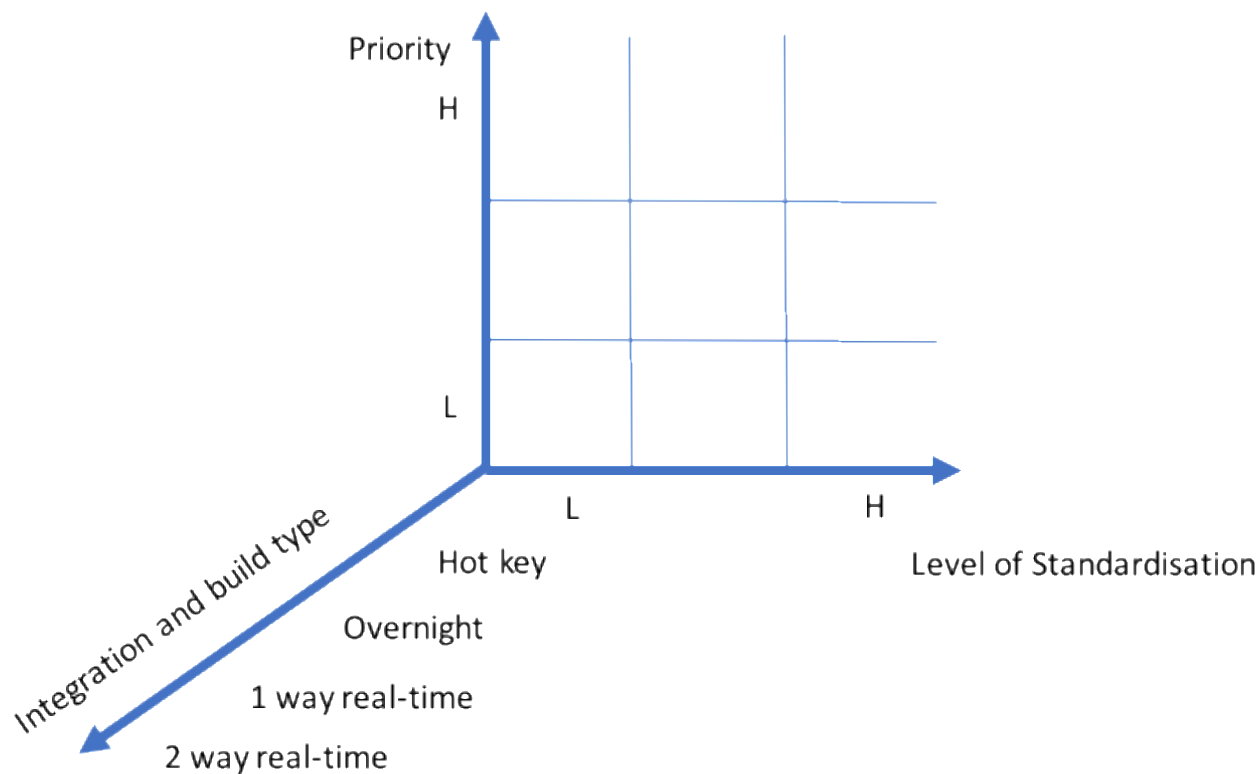
The following information sets out key elements of the implementation phase which will be followed. This is guidance - the approach and content is one that will be agreed with Shepway following the formal agreement to proceed.

Process Prioritisation and Clustering

A key element of successful implementation is the prioritising and clustering of processes that each phase will transform.

Prioritising processes will ensure that those transformed activities that have high levels of benefit associated with outcomes, cost and volume are created early in the phase, allowing phase benefits to be realised.

Clustering processes will ensure a consistent approach to delivery of services in line with the design principles of the programme and also deliver standardised components of technology and ways of working that can be re-used throughout the programme. An example set of 6 core processes that will be used across numerous process are shown in Appendix 5.



Process Prioritisation & Standardisation matrix

Transition management & training

A crucial element of any successful wide-ranging transformation programme is the planning and delivery of transition from the current to future state.

Ignite recognises that a failure to place great importance on transition activities will inevitably cause delays in implementation and result in an organisation that is not ready to fully embrace the change.

The twelve elements of transition management that require planning and delivery during each phase of the programme are briefly described below:

1. **Change readiness assessment** - understanding the current position of the organisation's readiness for change, from the perspective of the staff within the organisation will garner a greater understanding of the challenges, mentoring, awareness and training that will be required to transform the subset of the organisation within the phase
2. **Training** - the creation of a comprehensive set of training plans that cover the areas of process, system and ways of working that will ensure that individuals are able to transition smoothly into the transformed organisation
3. **Knowledge and succession management** - gaining a detailed understanding of the knowledge profiles of existing individuals in the organisation and ensuring that specialist or crucial historic or knowledge is not lost during transition

4. **Ways of working** - building a deep understanding for individuals of the ways of working that will be required from staff in the transformed organisation throughout the phase to prepare them for operating effectively in the transformed organisation
5. **Mobilisation of new teams** - once staff are placed in their new teams, carrying out a number of team building activities to embed the new ways of working in the new environment
6. **Consideration of Parallel running** - during any transformation activity, consideration must be given to the cutover from the old ways of working to the new that will ensure that business-as-usual activities can continue and performance maintained whilst piloting and introducing new technology and ways of working
7. **Launch & Communication** - careful planning and consideration of the launch of the phase will be required along with internal and external communication plans and activities
8. **Go -Live support** - planning of and ensuring that, staff have the support and lines of communication that will be required during the period on and shortly after any go-live activity for systems and ways of working
9. **Lesson learning and review** - after each phase is completed, a comprehensive review of the performance of all elements of the phase plan will be reviewed for effectiveness and any lessons learned taken forward into subsequent phases of the programme
10. **Management of historic/existing cases** - during cutover, consideration will need to be given to cases that are being managed within systems that will be decommissioned and the retention or migration of historic data in a manner that can allow retrieval by staff until it is no longer required to be held
11. **Processes and activities to stop** - as a result of detailed design, some processes and activities will be identified as appropriate to cease completely. These processes and activities will need to be stopped in a controlled manner and monitoring carried out to ensure that cessation does not have an unplanned adverse effect on the organisation or stakeholders
12. **Managing the impact of the rollout plan** - gaining a complete understanding of the impacts of the transition plan and taking the appropriate remedial actions to ensure any impacts are monitored and where appropriate, flagged up and managed to reduce any effect on the overall programme

Detailed Process and User Journeys

Throughout detailed design and implementation, a rich picture of the operation and roles of new processes will be created and shared with the organisation.

These process and user journeys will both inform the emerging organisational design, any refinements to budgets, programme risks and the key design considerations for the phase.

Process and user journeys will be further created and refined within process re-design and these products will be used by the build teams within the sprint cycles for software development and will also provide key information that will be used to form the training requirements for staff.

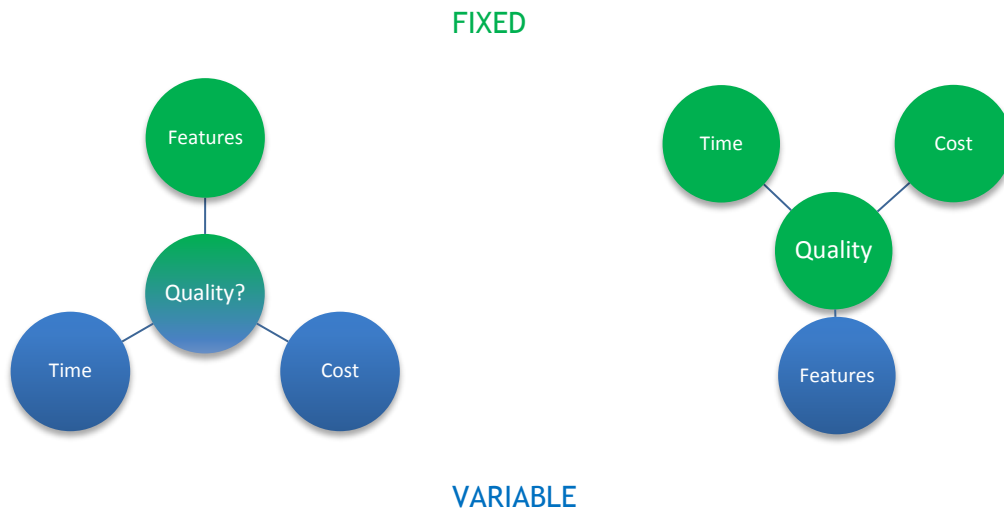
Process redesign and Technology implementation

The correct control of the process redesign and build is an essential element of ensuring that each phase delivers processes and technology that is fit for purpose and delivers the benefits associated with the phase. In order to avoid obstacles that are encountered by traditional

development methodologies, an agile approach will be taken. A summary of the agile approach is shown below:

Traditional/Waterfall Development

Agile Development



Agile versus traditional development approaches

In traditional development, time is spent on gathering and building a full list of user requirements and is fixed, along with elements of the customer's quality expectations. In order to ameliorate delays during development, any one of the other dependencies of Time, Cost or Quality has to be augmented or compromised in order to meet development deadlines.

In an agile development cycle, Time, Cost and Quality are fixed by the breaking down of development into defined periods of build, which are known as sprints.

In an agile build model, requirements/features are the variable factor in any sprint cycle. Controlling the requirements for a releasable product is what keeps development time or costs from escalating, or quality from being compromised. The prioritisation matrix is known as MoSCoW and is formed as follows:

- **Must Have**
- **Should Have**
- **Could Have**
- **Would like to have**

In any sprint cycle:

All of the **Must Have** requirements are completed in the initial development order to have a usable product that can be released into the live environment (this is also known as the **Minimum Useable Subset**).

Should Have requirements are important in realising the full benefits of the technology within the process but not necessary for delivery in the initial development sprint. While these requirements can be as important as **Must Have**'s they are often not *as* time-critical or there may be another way to satisfy the requirement. They may be held back until after the process is

released into the live environment and included in a future sprint cycle, where the process is iterated and enhanced to release any remaining benefits

Could Have requirements are desirable but not necessary, and could improve user experience or customer satisfaction for little additional development cost. These requirements will typically be included in subsequent sprint cycles if time and resources permit.

Would like to have requirements have been agreed by stakeholders as the least-critical, lowest-payback items or not appropriate for implementation at that time. These requirements are not even planned into the schedule for the initial development sprint. These requirements are either dropped or reconsidered for inclusion in later sprints.

Risk Management

In creating the implementation plan for this significant change programme, risks have started to be considered at both the programme and service level. There is in place a risk-register for the programme which identifies the key risks and their mitigations. It includes:

- Delay in programme implementation timetable
- Not meeting the financial efficiency savings
- IT delays
- Disruption to staff
- Disruption to customers and business as usual

In addition to these, there are a number of other key risks, summarised in the table below:

Risk	Mitigation(s)
Loss of key people and organisational knowledge	Talent management plan that identifies key people and knowledge and puts measures in place to retain these key people
Reduced performance in key services	Department risk registers to identify and manage specific service transition risk are being developed These risks will be discussed and iterated with Members and will drive key considerations in the implementation plan
The organisation will have less capacity to deliver post implementation	New approach to delivery supported by technology, simplified processes and more self-service enables the council to deliver 'more for less' Introduction of more generalist customer service, local delivery and case management teams gives a more flexible capacity to deliver current priorities We expect this will enable greater focus on the priorities of the council and to ensure that we are measure and manage performance focussed on these priorities
Programme costs will exceed the current forecasts	Programme costs vs forecasts will be monitored by the programme board on a monthly basis Where appropriate fixed price delivery contracts will be negotiated with suppliers

Each of the phases shown in the implementation plan will monitor and report workstream specific risks at monthly programme management meetings and where appropriate these will be escalated to the programme board.

Appendix 4 - Role Families

The following are examples of how the role families might be constructed and the type of roles there may be developed when undertaking detailed design. However, Shepway District Council is reviewing the proposed role families to ensure they reflect local business needs going forward.



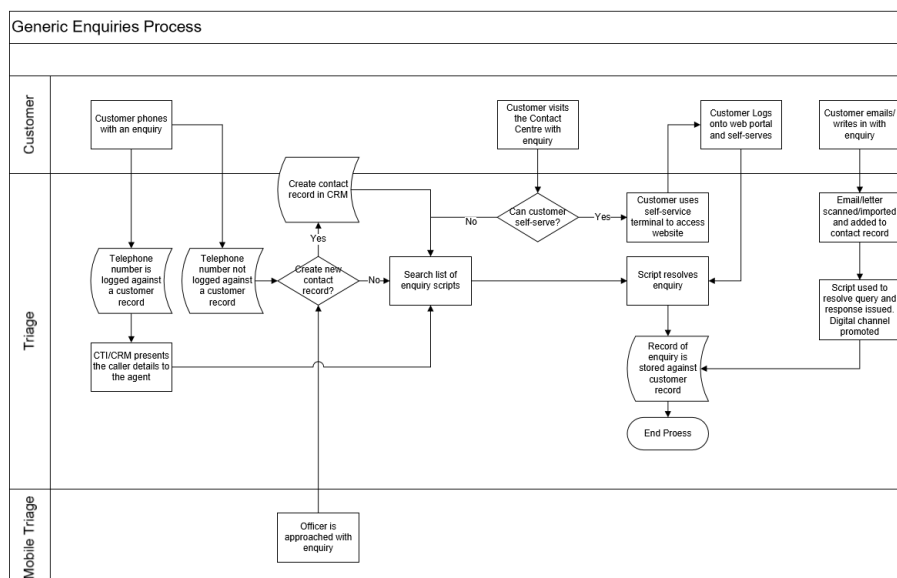
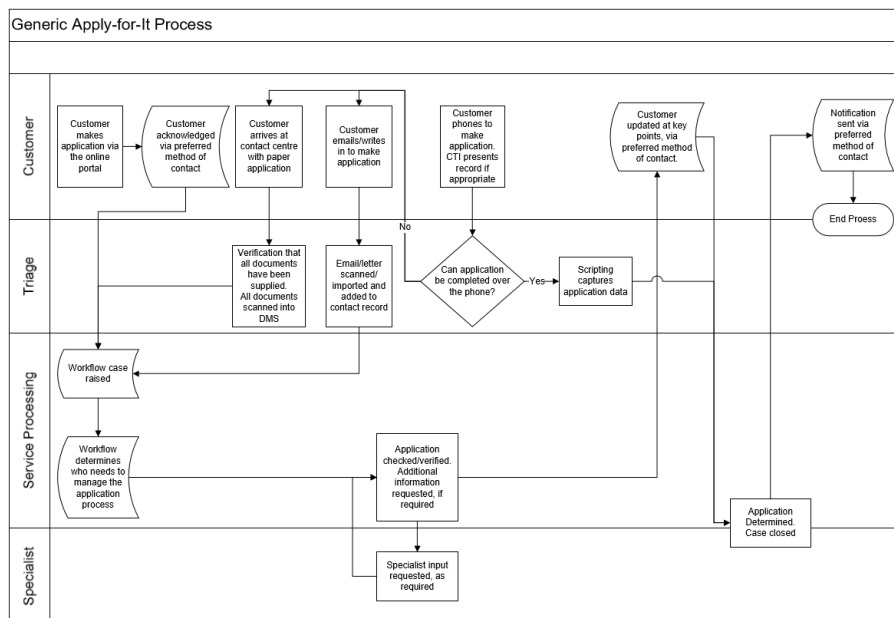
Appendix 5 - Generic Future Model Processes

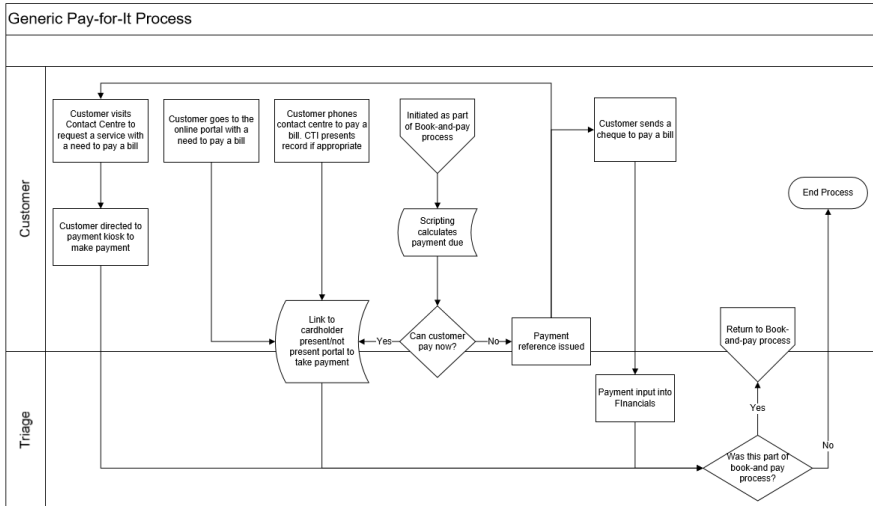
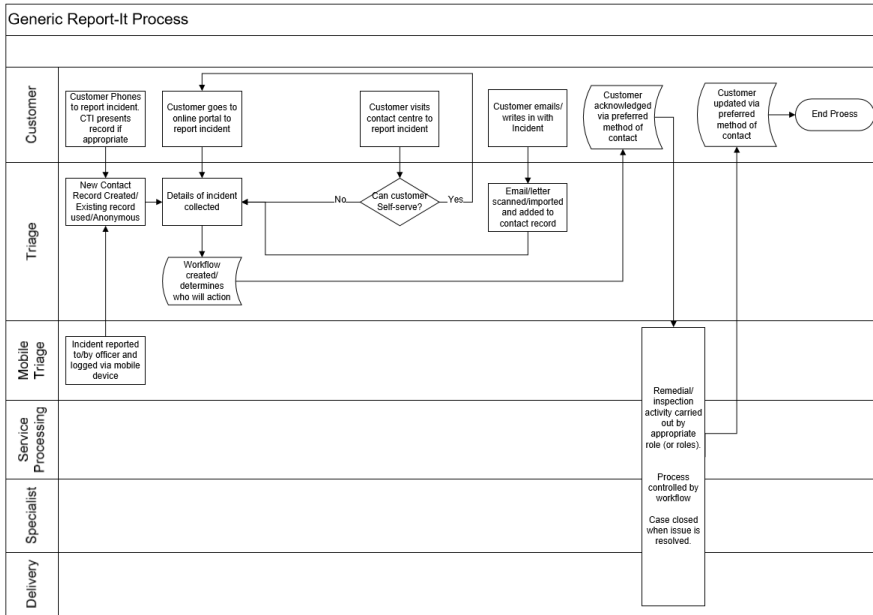
As part of the Blueprint process a number of generic, technology agnostic future processes have been articulated. The purpose of these processes is to demonstrate how key sets of activities that appear in multiple customer journeys at present can be simplified, standardised, and where appropriate automated. Furthermore, these sets of activities are fully integrated into wider workflow and customer contact management systems.

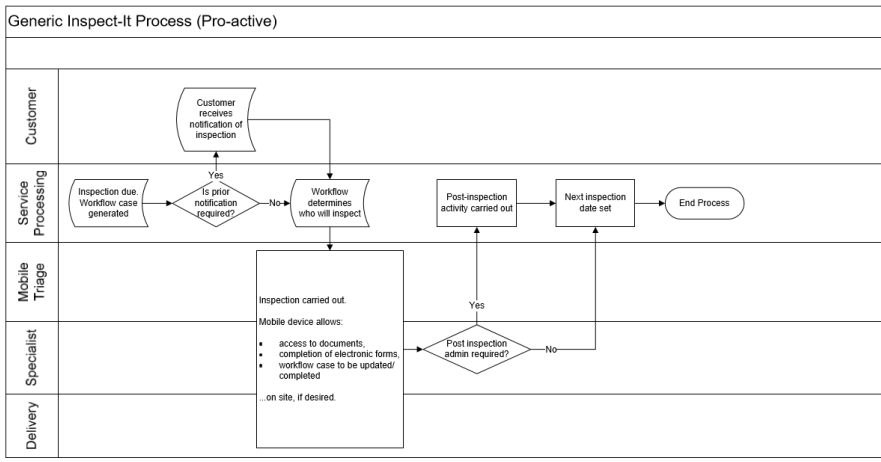
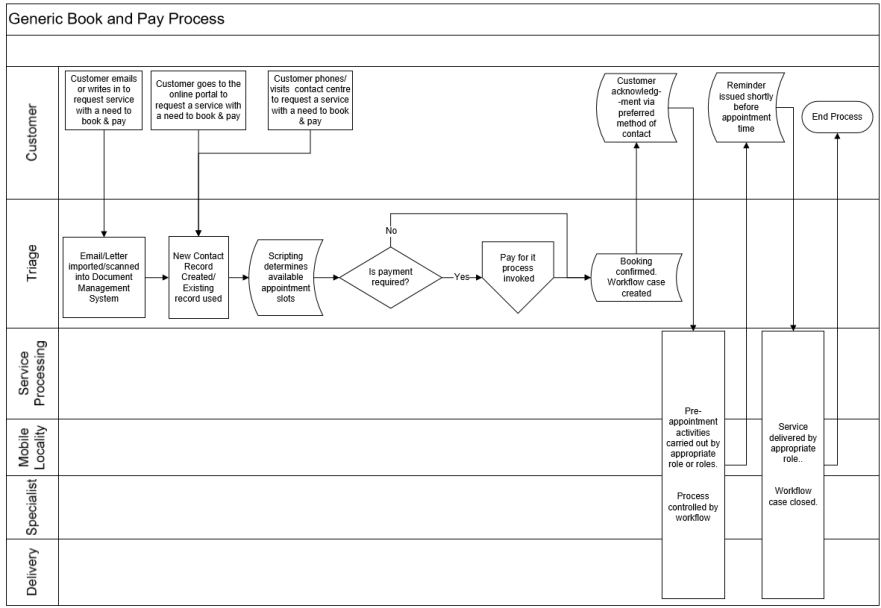
The processes selected cover a range of customer driven processes such as:

- Apply for it
- Enquiries
- Report it
- Pay for it
- Book and pay

as well as a standardised “Inspect it” process covering all council inspection activities.







Shepway District Council

ICT Strategy 2018 - 2023

1.0 Introduction

- 1.1 This ICT strategy is effective for the period 2018 to 2023. It is based on a number of core principles aim to provide a framework by which ICT solutions can be designed to support the aspirations and delivery of the council's Corporate Plan, in particular the Transforming Shepway programme.
- 1.2 The core principles of the strategy underpin a new ICT infrastructure that is fit for purpose, well integrated, focused on self-service and demand reduction, supports agile working and facilitates improved communications, whilst being secure, resilient and affordable. The strategy will look to the future of ICT support beyond the end of the current outsource arrangements in 2022, bearing in mind the fast-paced changing trends in technology and the council's ongoing pressure to meet financial efficiency savings.
- 1.3 Data privacy will be embedded in solutions by default and systems and processes will be designed to reflect this. There will be a greater emphasis on business requirements and governance as the council seeks to work in more agile ways. Consideration will be given to a range of technologies to ensure they are appropriate and cost effective and though they may be predominantly cloud based it is likely for the time being the council will have a variety of solutions in place, both hosted and on premise in what is generally termed a "hybrid" model.
- 1.4 The strategy will be supported by a High Level Road map which will provide a structure and timetable for the delivery of technical solutions. This will necessitate an early review of hardware and systems provision to ensure ICT is fit for its future role and is not simply providing more of the same as that could lead to the council having outdated technology. Both the strategy and the roadmap will be reviewed annually to ensure they continue match the council's objectives moving forward for the next 5 years and beyond.

2.0 Purpose of the strategy

- 2.1 The ICT strategy and the High Level roadmap serve a number of purposes:
 - It underpins high level corporate objectives by setting out how the council expects to use technology to help to meet its goals.
 - It provides the framework for the ICT service and others to deliver the technical solutions for the council.
 - It provides the context for ICT related investment decisions and with the business cases that will be brought forward helps to identify major items of expenditure which can inform financial planning in the coming years.

- It helps to indicate how ICT can help the council to achieve its efficiency savings and cost reductions.
- It provides consistency and common purpose when aligning technology choices with business needs to in order implement solutions that are future proofed (as far as the rapid advances in technology allow), secure, affordable, supportable and well governed. Taking a holistic view avoids purchasing ICT solutions based solely on short term tactical or individual departmental requirements which leads to incompatibilities, inefficiencies and higher support and maintenance costs in the long term.
- To help inform decisions in relation to the councils ICT requirements during the process of the re-procurement of the current ICT contract. The process of contract renewal will have to start in 2019/20 in order to be complete before the end of the current contract in March 2022.

3.0 Strategic drivers

3.1 There are many drivers that can influence the production of an ICT strategy and those that are currently considered key to this Strategy are listed below:

- 3.1.1 **Transformation Project.** The council's ambitious transformation project between 2017 and 2020 will depend heavily on making better use of technology for its success. Customers and officers must have access to information quickly and easily in order to self-serve regardless of how and when they need access requiring information and communication systems to be improved to support the council's new operating model.
- 3.1.2 **ICT Services Contract.** The council's current ICT outsource arrangements with Sopra Steria come to an end in March 2022 so a clear vision of any future technology model is required in order to identify support requirements beyond that date in order to either procure a new contract or consider alternative models for ICT service provision.
- 3.1.3 **General Data Protection Regulations (GDPR).** Data protection laws are changing and the arrangement of the council's current systems, which have many areas of duplication of customer records and information, will make compliance with the GDPR difficult. The new laws demand that management and privacy of information must be at the core of business systems and process design.
- 3.1.4 **Legacy systems.** There are concerns about the risks associated with some legacy systems which may be approaching end of life or coming out of warranty or mainstream support within the period the strategy covers, they are sometimes difficult to access remotely on mobile devices, or non-compliant with expected changes to data protection legislation. Others may be lacking in resilience, require very specialist knowledge, or are highly bespoke.
- 3.1.5 **Business Continuity.** The majority of the council's core ICT infrastructure is located in the civic centre server room which presents risks in terms of being vulnerable to the ever increasing threat of Cyber-

attack and the ability to recover from other business impacting incidents. It also restricts the council should it wish to move location at some point in the future therefore a more flexible model is required.

- 3.1.6 **Efficiencies.** The resource overheads in terms of the ICT service and internal system support technical staff required to manage the current on premise solutions and the continual need to secure, update and replace systems could be reduced by a more efficient model thus contributing to the councils overall savings targets.
- 3.1.7 **Working with others.** There may be opportunities for wider shared ICT services through working with other partners such as Kent Connects on the Kent Futures model and using the Kent Public Services Network. These options will continue to be considered as and when they arise.

4.0 ICT Strategy Core Principles

- 4.0.1 This ICT strategy is based on six core principles (discussed in para's 4.1 to 4.6 below) which collectively aim provide the framework by which ICT solutions are delivered in future.

4.1 Reduce costs and ensure affordability

We will seek to reduce costs and maximise efficiency through the use of technology through such things as:

- Deploying a core technology model based on a number of well integrated underlying platforms that support a single view of the customer and information held only once whether that be cloud based, on premise, or a mix of systems in a hybrid model as a means of controlling costs in terms of support, equipment, licences, training and skills and maintaining security. Where possible the number of diverse “back office” systems will be reduced as rationalising systems can reduce costs.
- Systems using automated processing and artificial intelligence will be deployed where appropriate to drive down internal staff costs and provide high quality easy to use customer self-service channels that are available 24 x 7 x 365.
- Accepting there is not a “one size fits all” solution and where specialist applications are needed for some business functions they will be assessed against the core technology model to understand to what extent they are able to integrate and thereby avoiding costly future issues arising from incompatibility and thus higher support costs.
- It is envisaged that most systems will be accessible via any web browser or an App therefore future choice of device will be based on being “Fit for purpose” rather than “Best of Breed” in order to control hardware costs.
- Technology and systems should be simple to use and staff will be encouraged and trained to get the best from their technology. There will be a greater requirement for self-help and devices that are increasing “plug and play” thus ICT support costs can be reduced.

- Using faster procurement methods such as G-cloud and pre-tendered frameworks will be used to reduce the time, cost and complexity involved with procuring solutions.
- The council will continue to take advantage of shared working opportunities as and when they arise particularly where they reduce costs, for example making use of the Kent Public Services Network.

4.2 Improve productivity

We will use technology to maximum advantage to enable the customer to self-serve and enable the workforce to be productive wherever they are working:

- Business systems will be properly integrated to the core systems to improve productivity by reducing duplication of effort retyping data from system one to another, and avoid using a number of systems in order to resolve a single service request from a customer.
- Processes will be built on well-defined workflows, minimising steps and using technology in place of a person where advantageous to do so. Customers should be automatically notified of progress of tasks without them having to access the council by other channels for updates.
- Self-service systems should be clear and easy to use allowing the customer to provide the right information first time and wherever possible the transaction should be handled from end to end and resolved automatically.
- For internal staff, tasks should be automatically scheduled and prioritised so they work on most important thing first.

4.3 Drive Demand reduction

We will use technology to move services delivery to cost effective solutions reducing the need for face to face or telephone contact:

- Both public facing and internal transactions should be provided by self-service channels that are simple to use and ensuring those channels are available when customers wish to use them.
- Often requests to the customer contact centre is driven by “failure demand” which may be due to a problem with another service provider (e.g. waste contractor) or issue outside the council’s control (e.g. service disruption due to bad weather) therefore systems should be able to recognise when requests for the same issue are being logged more than once for the same thing, automatically inform customers of those issues without them having to report a problem and provide alternatives or allow them find such information quickly and therefore flex demand to other available channels. Systems will provide analytics that will inform decisions related to service improvement and reduce demand.
- Where self-service is deployed, processes and workflows will be as short as possible and should allow customers to interact directly with back office systems in real time, for example, replacing static web forms with forms that dynamically build depending on the service requested and the information provided by the customer. Capturing all the data necessary at the start of a transaction removes avoidable contact later.

- Technology will be used to streamline internal systems and processes where appropriate to do so and officers and customers should use the same versions of systems and have the same view of the information.

4.4 Support agile working

We will support agile working with fit for purpose technology:

- IT systems will allow those staff who require it the ability to work in a truly mobile manner to support the concept of locality working in order to maximize staff efficiency and reduce overheads such as travel costs while providing the requisite level of security.
- Mobile working solutions will provide officers with fast access to the right information how and where ever they choose to work regardless of device and location. Systems will allow data to be transferred real time whenever they are connected to the internet or have the ability cache data allowing officers to work seamlessly “off line” while connections are temporarily unavailable.

4.5 Improve communications

We will use technology to improve communications so that information can be passed efficiently to those who need to have it.

- Integrated systems will allow staff and customers to access to information held digitally quickly and easily without having to request it via someone else.
- Communications will be handled by automated systems or artificial intelligence where it is appropriate to do so, for example automatically informing customers of the progress of a request, or notifying an officer they need to progress a piece of work when a task in a workflow process is triggered.
- The customer contact centre technology will have integrated features such as calls, email, chat and social media all being handled from the same queue, and the ability to pass interactions to the person most skilled to handle the call and if necessary out of the contact centre to a specialist better able to deal with the transaction.
- Internal communications will be improved by providing a modern telephone system that includes such features as calendar integration (presence), easy to set up conference calling, shared whiteboards and video chat. Officers will be able to transfer their calls easily to the best device depending on where they are working. In some cases all that may be required to make calls in future is a web browser removing the need for telephony hardware.
- The website and associated forms require continual improvement, information is sometimes hard to find, integration with legacy back office systems makes some transactions difficult and forms are static rather than dynamic.
- A new Customer Relationship Management (CRM) system is required that provides a single view of the customer across the council so that anyone involved with dealing with requests, both internal and external, has the same

information. Likewise a single document repository is required so that information is held once and accessible easily to anyone who has the rights to access it and can find it through a simple search.

4.6 Maintain security and resilience

We will protect the council's data and systems to the highest standards:

- The council will continue to maintain its compliance with required security standards such as the Public Services Network Code of Connection as they provide an implicit level of assurance.
- New data protection laws demand that "Privacy by Design" becomes embedded in ICT systems and business processes. However it is important that security does not become an unnecessary barrier to using the information therefore the right level technical security measures will be applied to maintain the confidentiality, availability and integrity of the data at all times.
- New systems like the collaboration platform and CRM will reduce the amount of data that is required to be held by only keeping that which is necessary and providing the tools to be able to maintain that data in accordance with the council's retention schedules and securely share with it with those who have a legitimate need.
- The resilience of systems will be considered when re-procuring systems. Where systems are hosted in the cloud suppliers will provide assurance they achieve the required levels of security compliance.

Delivering the strategy

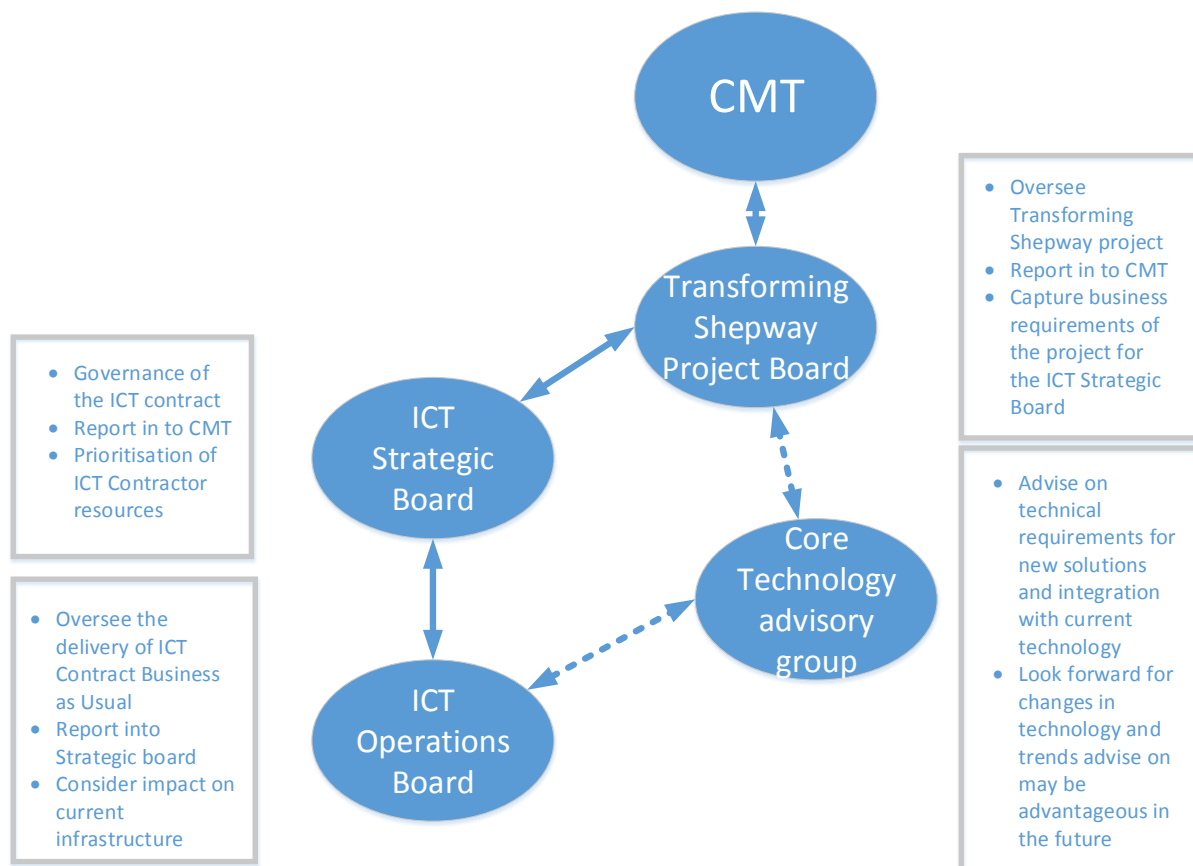
5.0 Governance

5.1 This strategy will impact on all aspects of the councils ICT provision and there needs to be robust governance not least because it affects other council initiatives such as the Transforming Shepway project which will require available internal and contractor resources to be well used and timescales to be met, as well as contributing to the council's long term savings targets. A governance model is described as follows and as shown in diagram 1 below:

- CMT will set the direction of travel and agree overall priorities and budgets and individual business cases as they are brought forward. Where there are a range of options available in order to deliver solutions in support of the council's objectives these will be made clear in the business cases.
- The Transforming Shepway project group lead will capture and relay business requirements arising from the project to the ICT Strategic Board.
- The ICT Strategic Board will provide the oversight of the contract with Sopra Steria and will consider how best to provide the technical solutions that meet the business requirements coming out of the Transforming Shepway project board. The ICT Strategic Board will consider the priority and timing of projects alongside ongoing maintenance works and advise the Transforming Shepway group project lead of issues related to the delivery of solutions.

- The ICT Operations Board will continue to manage the running of the day to day ICT business as usual work alongside the actual delivery of the technical projects in support of the Transforming Shepway project.
- The Core Technology Advisory Group which it is envisaged would comprise a small number of ICT specialists (for example web, network, telephony) will act a sounding board for checking technology solutions to ensure that all proposals comply with the principles of the ICT Strategy and other council's objectives and are compatible with the core technology model at the solution design / specification preparation stage of a project. This group would not be responsible for decision making.

Diagram 1. ICT Strategy Governance Model



6.0 Conclusion

6.1 This strategy aims to provide the framework for an ICT model by which the council's objective of delivering better services in a more cost effective way can be supported by technology. It is a time of great change not just within the council and wider in government but also in terms the solutions available. Old service models are disappearing in favour of cloud based solutions that provide greater availability and resilience at a lower cost than the traditional on premise method of delivery. At the same time the demand of customers to be able to interact with the organisations quickly and easily through digital channels is increasing apace. However, as the demand for digital services is increasing so are the risks associated with managing data so the ICT strategy needs to take account of all these factors.

6.2 Only by taking a well governed and holistic view of ICT systems and providing a well-designed and well-integrated technology platforms can the council hope to provide the first class technology enabling the seamless self-service platforms that customers increasingly expect meet its internal efficiency targets.

7.0 Next Steps - Key deliverables

7.0.1 In order to deliver the strategy there are a number of key deliverables required:

7.1 High Level Road Map

7.1.1 It is clear that there is a lot that needs to be achieved during the timeline of this strategy, with the Transforming Shepway Project, normal ICT business as usual to support, retiring and replacing systems (and in many moving those systems to alternative hosting arrangements), dealing with suppliers and procurement activities and addressing the issues that will be raised by the end of the Sopra Steria contract and transition to an alternative supplier. Therefore a High Level roadmap will be produced to underpin this strategy which considers key decision points and dependencies as far as they are known in order to indicate when decisions may need to be taken.

7.1.2 The High Level Roadmap which will look forward across the whole timeline of the strategy in terms of short (almost immediate up to 1 year), medium (2-3 years) and long term (up to 5 years) projects. The Roadmap will be supported by technical delivery plans which look at the delivery of solutions by individual projects over a 12 month period in order to plan resources.

7.2 Financial plan

7.2.1 High level Road map will be used to help inform the councils financial plans related the Medium Term financial plan by identifying when major costs related to technology may arise, and conversely when efficiency savings may be realised and to help calculate the overall benefits of the Transforming Shepway project. While using technologies such as cloud can reduce costs there is a shift from traditional upfront capital investment for ICT to revenue based subscription charging models.

7.3 Risks and Issues

7.3.1 There are a number of risks that will have to be considered due to a number of factors such as the current ICT contract running down and those associated with associated with changes in technology. A risk register will be maintained alongside the high level roadmap and risks to individual projects will be considered as and when business cases are submitted.

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This Report will be made public on 20 February 2018

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/83**

To: Cabinet
Date: 28 February 2018
Status: Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Member: Councillor David Monk, Leader and Councillor Malcolm Dearden, Cabinet Member for Finance

SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2018/19

SUMMARY: This report sets out the final General Fund budget and council tax requirement for 2018/19, including that part of the local tax covering district and parish services.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- a) The District Council's General Fund budget and council tax requirement must be approved to enable Full Council to set the budget and the council taxes for 2018/19 in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note Report C/17/83.
2. To recommend to Council to approve the final 2018/19 General Fund budget, as set out at paragraph 4.
3. To recommend to Council to approve a council tax requirement for 2018/19 of £12,183,131.

1. BACKGROUND

- 1.1 This report sets out the final general fund budget and council tax requirement for 2018/19, including that part of the local tax covering district and parish services. The council tax requirement determines the transfer from the Collection Fund in accordance with the Local Government Finance Act 1988.
- 1.2 It follows on from previous reports approved by Cabinet:
- 11 October 2017 - Medium Term Financial Strategy for the period 2018/19 to 2021/22
 - 15 November 2017 - Budget Strategy 2018/19 and Fees & Charges 2018/19
 - 14 December 2017 - Draft General Fund Original Revenue Budget 2018/19
 - 17 January 2018 - Update to the General Fund Medium Term Capital Programme
- 1.3 Areas of the budget that remained to be confirmed when the Draft Budget was approved by Cabinet in December 2017 included:
- The Local Government Finance Settlement for 2018/19
 - The council's share of the Collection Fund surplus or deficit
 - Town and parish precepts, and
 - The council tax base and business rates income forecast.
- 1.4 Cabinet's budget recommendation for 2018/19 will be considered at a meeting of Full Council (also taking place on 28 February 2018) when it will set the 2018/19 council tax after taking into account:
- Precepts from Kent County Council, Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service
 - The special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity
 - Individual town and parish council precepts.
- 1.5 The budget proposals have been subject to public consultation during November and to review by Overview and Scrutiny Committee between September and January.

2. COUNCIL TAX 2018/19

- 2.1 The budget has been prepared on the basis that the District Council's element of council tax (including the special expenses for Folkestone Parks and Pleasure Grounds) is increased by 2.98%. This is the increase that is monitored by the Government when determining whether any increase in council tax is excessive, and would require a referendum.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

- 3.1 The provisional 2018/19 settlement was announced on 19 December 2017. The announcement covered a range of proposals affecting both the short term (2018/19) and the medium term (to 2020/21). The main changes are outlined below.

Local Government Funding Reform

- 3.2 The government has published the first of several consultation papers on the “Fair Funding Review”. The focus of this consultation was “a review of relative needs and resources”. Other consultations are to follow and the results of this review will be introduced in 2020/21.

Shepway Core Spending Power

- 3.3 Core Spending Power is a headline figure used by Government to represent the key revenue resources available to local authorities; it includes an estimate of actual and potential council tax.

	2017/18	2018/19	2019/20
	£M	£M	£M
Core Spending Power	15.404	15.273	15.361
Comprising:			
Settlement Funding Assessment	4.334	3.896	3.369
Council Tax	9.392	9.941	10.522
Other Grants	1.678	1.436	1.470
Change in Core Spending Power			
Annual Change		-0.8%	0.6%
Cumulative Change		-0.8%	-0.3%

Shepway Settlement Funding Assessment

- 3.4 Settlement Funding Assessment (SFA) is the revenue received by local authorities in the form of (i) Revenue Support Grant from Government and (ii) the share of business rates retained locally.

	2017/18	2018/19	2019/20
	£M	£M	£M
Settlement Funding Assessment	4.334	3.896	3.369
Comprising:			
Revenue Support Grant	0.848	0.000	0.000
Baseline Funding Level	3.486	3.896	3.670
Tariff/Top Up Adjustment ¹	0	0	-0.301
Change in Settlement Funding Assessment			
Annual Change		-10.1%	-13.5%
Cumulative Change		-10.1%	-22.3%

Nationally, a cumulative SFA decrease of 21.7% is forecast for district councils between 2017/18 and 2019/20.

Shepway Retained Business Rates

- 3.5 The Baseline Funding Level is the share of the Settlement Funding Assessment that Government intends to be funded via locally retained business rates. The remainder would have come through Revenue Support Grant which was anticipated to cease at the end of 2018/19, but will now cease for Kent Business Rates Pilots from the end of 2017/18. It is Government’s projection of the authority’s share of business rates assuming there has been no change in the taxbase since the start of the scheme. It increases each year in line with the small business rates multiplier.

The Provisional settlement announcement confirmed that there will be a business rates baseline reset in 2020/21, and from 2020/21 business rates retention will be at 75%. Additionally the settlement also confirmed a consultation will take place in Spring 2018 exploring fair & affordable options

to deal with the current £153 million nationally that remains in the 2019/20 funding allocations in respect of negative Revenue Support Grant. The outcome of that consultation will feed into the 2019/20 finance settlement.

	2017/18	2018/19	2019/20
Baseline Funding Level (£M)	3.486	3.896	3.670
Baseline Business Rates (£M)	9.575	9.557	9.769
Tariff/Top Up (£M)	-6.089	-5.365	-6.099
Levy Rate (pence in the pound)	50	0	50

* Includes £0.297m revaluation 2017 one-off adjustment

Kent Business Rates Pilots

- 3.6 The settlement announced that the Kent and Medway business rates pilot was one of 10 successful bids for 2018/19. The budget does not anticipate any additional funds that may be received as a consequence being in the pilot, the amount receivable is dependent on the level of economic growth, income received will be held in an earmarked reserve.

Shepway New Homes Bonus

- 3.7 The provisional settlement announcement included no changes to the New Homes Bonus scheme methodology or distribution. A prudent approach had been taken regarding this funding in the draft budget, so this announcement has had a positive impact on the budget for 2018/19, and will be incorporated in future medium term financial planning.

3.8 Planning Income

The settlement confirmed that the known increase to planning fees of 20% to facilitate the resourcing of that service, could be implemented from January 2018.

3.9 Council Tax

Local Authorities have been operating under the 2% or £5 increase referendum limit since capping was abolished. The settlement announced the limit would be increased to 3% or £5, whichever was the higher for the authority. This change sought to reflect current rates of inflation. No referendum principles were introduced for town or parish councils.

3.10 Flexible Capital Receipts

The existing scheme due to end in 2018/19 was confirmed through the settlement to be extended for a further three years. This was an encouraging announcement particularly for authorities such as Shepway exploring a transformation programme.

3.11 Final Local Government Finance Settlement 2018/19

The final local government finance settlement has recently been released and at the time of submitting this report for approval no significant changes have been identified from the provisional settlement position.

4. GENERAL FUND REVENUE BUDGET 2018/19

- 4.1 Cabinet considered and approved the Draft General Fund Original Revenue Budget for 2018/19 on 14 December 2017. This took into account the £593k

savings proposals, £112k from fees & charges and £313k growth as detailed in the Budget Strategy report that was approved in November 2017, along with the forecast 2018/19 budget changes from the Medium Term Financial Strategy.

4.2 Following the provisional settlement and final budget updates the revised Original Budget is set out below.

2017/18 Original Budget		2018/19 Draft Original Budget December 2017 £	2018/19 Updated Original Budget February 2018 £
SUMMARY OF NET EXPENDITURE			
Service Heads			
833,080	Leadership Support	909,620	912,620
	Corporate Director – Strategic	253,830	
0	Development		253,830
240,530	Communications	243,770	253,770
4,774,650	Head of Democratic Services & Law	4,882,470	4,882,470
962,390	Head of HR	2,459,240	2,459,240
4,227,010	Head of Finance	3,253,860	3,311,828
2,254,850	Head of Communities	2,181,620	2,181,620
359,600	Head of Strategic Development Projects	1,321,470	1,321,470
470,740	Head of Economic Development	336,540	298,540
923,150	Head of Planning	765,740	765,740
2,551,020	Head of Commercial & Technical Services	2,413,550	2,421,570
-1,980,500	Recharges	-1,980,500	-1,980,500
-224,000	Net employee adjustments	-6,000	-6000
15,392,520	TOTAL HEAD OF SERVICE NET EXPENDITURE	17,035,210	17,076,198
444,272	Internal Drainage Board Levies	453,160	452,770
526,000	Interest Payable and Similar Charges	452,210	452,210
-451,000	Interest and Investment Income	-578,430	-678,430
-1,571,779	New Homes Bonus Grant	-1,024,770	-1,361,666
-899,350	Other non-service related Government Grants	-788,350	-1,240,021
13,440,663	TOTAL GENERAL FUND NET OPERATING EXPENDITURE	15,549,030	14,701,061
-239,843	Net Transf. to/(from) Earmarked Reserves	-1,241,000	-906,650
388,930	Minimum Revenue Provision	373,370	373,370
2,190,000	Financing of Fixed Assets	197,000	197,000
15,779,750	TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS	14,878,400	14,364,781
2,052,914	Town and Parish Council Precepts	2,093,970	2,283,454
-203,378	Transfer to/(from) the Collection Fund	-100,000	-100,000
-3,747,186	Business Rates Income	-3,994,950	-4,244,104
-848,140	Revenue Support Grant	-305,130	-
13,033,960	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE	12,572,290	12,304,131
-11,444,953	Council Tax - Demand on Collection Fund	-11,719,390	-12,183,131
1,589,007	(SURPLUS) / DEFICIT FOR YEAR	852,900	121,000

The deficit for the year represents a withdrawal from the General Reserve of £121k which will be a planned contribution to fund schemes in the approved Medium Term Capital Programme.

Final Budget Changes

4.3 Reasons for changes since the draft budget was reported in December 2017 include:

- (i) Head of Service Budgets - final updates, in the main comprising of notification of government grant, the impact of the decisions on the budget by the Folkestone Parks and Pleasure Grounds Charity for 2018/19 and emerging issues.
- (ii) New Homes Bonus income - updated for the provisional settlement notification
- (iii) Other non-service related Government Grants - updated for the provisional settlement notification and the latest business rates forecasts
- (iv) Updates for town and parish precepts which had not been confirmed when the December report was prepared
- (v) Net transfers to/from earmarked reserves have been amended for the revised reserve release for the Medium Term Capital Programme and a review of planned earmarked reserve use
- (vi) Financing of Fixed Assets – final amendments to align with the Medium Term Capital Programme
- (vii) Transfer to/from the Collection Fund and Business Rate Income - adjusted for latest revised business rates forecasts
- (viii) Council Tax Demand on the Collection Fund – updated for:
 - forecast income based on the council tax base for 2018/19 that was approved by Full Council on 17 January 2018
 - confirmation of the special expenses for the Folkestone Parks and Pleasure Grounds Charity and
 - a 2.98% increase in the district council’s council tax in 2018/19 to keep in line with current inflation rates.

Comparison with 2017/18

4.4 The general fund budget requirement for 2018/19 is £14.36m, £1.41m lower than the 2017/18 original estimate. This reduction is primarily due to:

	£000
Increase in Head of Service Net Expenditure	1,683
Increase in Drainage Board levy	9
Net decrease in treasury management costs	(300)
Reduction in New Homes Bonus income received	210
Net increase in Other Government Grants	(341)

Increased transfers from Earmarked Reserves	(667)
Reduced contribution to financing of Fixed Assets from revenue	(1,993)
Adjustment to MRP	(16)
Total Reduction	(1,415)

5. SHEPWAY BAND D EQUIVALENT COUNCIL TAX 2018/19

- 5.1 The Local Government Finance Act 1992 (as amended) requires the Council to determine its council tax requirement for 2018/19.
- 5.2 The legal determinations in respect of the budget and council tax setting are set out in the General Fund Budget and Council Tax 2018/19 Report that is being considered at the 28 February 2018 meeting of Full Council, following this Cabinet meeting.
- 5.3 The amount to be raised by this authority from council tax payers comprises the council tax - demand on collection fund of £12,183,131.
- 5.4 This is divided by the tax base (38,312.22 Band D equivalent properties) to calculate the average district council tax, including town and parish precepts. The council tax base was approved by Full Council on 17 January 2018.

$$£12,183,131 \div 38,312.22 = £317.99$$

- 5.5 The average District council tax for Band D properties, including an amount for town and parish councils, will be £317.99. This is an increase of £12.24 (4.00%) over 2017/18. This sum will vary by parish and only represents an average, there is no referendum limit placed on town or parish councils by central government.
- 5.6 The impact of town and parish precepts is excluded when comparing the increase against what the Government regards as an excessive increase.

	2018/19 £	2017/18 £	Increase / (Decrease) %
Band D Council Tax - including town and parish precepts	317.99	305.75	4.00%
Band D equivalent of town and parish precepts	(59.60)	(54.84)	8.67%
Band D Council Tax - excluding town and parish precepts	258.39	250.91	2.98%

The average council tax to finance Shepway's net spending plans in 2018/19, including special expenses, is proposed to be increased by 2.98% to £258.39. The Council is therefore not at risk of having to hold a referendum because the increase falls within the Government threshold.

Excluding the special expenses, Shepway's council tax rate is £244.53; an increase of 3.17% from the 2017/18 rate.

6. SPECIAL EXPENSES – FOLKESTONE PARKS AND PLEASURE GROUNDS CHARITY

- 6.1 The average 2018/19 council tax for Shepway District Council of £258.39 includes an amount that the Council has identified is in respect of special expenses i.e. the Folkestone Parks and Pleasure Grounds Charity.
- 6.2 When council tax bills are issued, the council tax (and % change in tax) for special expenses is disclosed separately from the council tax (and % change in tax) for Shepway District Council excluding special expenses.
- 6.3 Subject to Full Council's consideration and final approval of the budget and council tax, the following amounts will be disclosed separately on the council tax bill for a Band D property.

Based on a Band D average	Council Tax 2018/19 (Band D) £	Increase (Band D) £	Increase + /Decrease ()	Council Tax payers that receive this information
Shepway District Council element of Council Tax - excluding Special Expenses	244.53	7.52	+3.17%	All Shepway District council tax payers
Special Expenses - Folkestone Parks and Pleasure Ground Charity	33.04	(0.21)	(0.63)%	Folkestone and Sandgate council tax payers only

7. MAJOR PRECEPTS

- 7.1 Local taxpayers will also receive information in their council tax bill regarding the amount payable in respect of:
- their town or parish council
 - Kent County Council
 - Kent Police & Crime Commissioner, and
 - Kent & Medway Fire and Rescue Service.
- 7.2 The Adult Social Care precept levied by Kent County Council will be itemised separately on council tax bills.
- 7.3 Precept details are set out in the General Fund Budget and Council Tax 2018/19 report to Full Council on 28 February 2018.

8. GENERAL FUND RESERVES

8.1 The forecast reserves position for 2017/18 and 2018/19 is shown below:

Reserve	1/4/2017 Balance £000	2017/18 Movement £000	31/3/2018 Balance £000	2018/19 Movement £000	31/3/2019 Balance £000
Earmarked Reserves:					
VET ¹ Reserve	876	(236)	640	28	668
IFRS ² Reserve	67	(18)	49	(11)	38
Corporate Initiatives	754	(439)	315	0	315
New Homes Bonus	2,431	283	2,714	(189)	2,525
Otterpool	1,989	(970)	1,019	(1,019)	0
Carry Forward	1,117	(890)	227	(50)	177
Business Rates	2,682	0	2,682	335	3,017
Economic					
Development	2,027	(150)	1,877	0	1,877
Invest to Save	366	0	366	0	366
Leisure	146	50	196	0	196
Grave Maintenance	12	0	12	0	12
Total Earmarked Reserves	12,467	(2,370)	10,097	(906)	9,191
General Reserve	4,902	(537)	4,365	(121)	4,244
Total General Fund Reserves	17,369	(2,907)	14,462	(1,027)	13,435

¹ VET = vehicles, equipment and technology

² IFRS = International Financial Reporting Standards

8.2 The General Reserve is forecast to be £4.2m by 31 March 2019 on the assumption that in-year budget variances are contained within the overall approved 2018/19 budget. Total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £13.4m at 31 March 2019

9. BUDGET CONSULTATION

9.1 The objectives for consultation on the 2018/19 budget proposals were to:

- (i) Engage with key stakeholder groups and local residents;
- (ii) Seek feedback on specific budget proposals for 2018/19; and
- (iii) Seek feedback on general spending and income generation priorities

9.2 The target audience and communication channels included:

Group	Channel
Residents	<ul style="list-style-type: none"> • Council website • Dedicated e-mail address • Option to receive/submit information by post
Business Community	<ul style="list-style-type: none"> • Attendance at Shepway Business Advisory Board
Other Community Groups	Direct engagement with: <ul style="list-style-type: none"> • Community Safety Partnership • Shepway Homelessness Forum • Shepway Employment and Training Forum • Voluntary and Community Sector Forum • Youth Advisory Group

Town and Parish Councils.

- Attendance at Shepway Joint Parish Council Committee

Budget Consultation Responses

- 9.3 Public budget consultation ran online during December and January. No direct feedback was received through these means. It is understood that whilst some responses were received last year, no responses had been received in previous years. Further consideration will be given to how to increase participation in consultation activities ready for 2019/20 budget setting, including options for seeking the views of a more representative sample of residents.
- 9.4 Specific feedback was sought from the groups named above. The Voluntary and Community Sector Forum provided feedback, acknowledging that they understood the tight financial constraints local authorities were operating within, but noted concerns regarding the withdrawal of funding in respect of the Community Chest grants.
- 9.5 In addition, in order to meet statutory responsibilities for consulting on the budget with the business community, feedback was noted following a presentation on the Council's financial strategy to members of the Shepway Business Advisory Board on 18 January. Questions and observations were raised about:
- Adequacy of the Council's reserves and their planned use
 - How the council communicated the message regarding the medium term financial pressures to the community
- 9.6 Parish councils were also briefed and invited to participate in the consultation at the meeting of Shepway District and Parish Councils Joint Committee on 11 January 2018.

10. BUDGET SCRUTINY

- 10.1 The 2018/19 budget reports that have been approved by Cabinet have been subject to review by the Overview and Scrutiny Committee at the following meetings:
- 10 October 2017 - Medium Term Financial Strategy for the period 2018/19 to 2021/22
 - 14 November 2017 - Budget Strategy 2018/19 and Fees & Charges 2018/19
 - 12 December 2017 - Draft General Fund Original Revenue Budget 2018/19
 - 16 January 2018 - Update to the General Fund Medium Term Capital Programme

Minutes of these discussions have been made available to Cabinet when considering the reports.

11. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

11.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to formally give an opinion on the robustness of the budget and adequacy of reserves.

11.2 The Chief Finance Officer's statement will be presented in the General Fund Budget and Council Tax 2018/19 report to Council on 28 February 2018.

12. CONCLUSION

12.1 Cabinet is asked to recommend to Full Council the approval of the final General Fund budget for 2018/19 and to determine the District Council's council tax requirement as £12,183,131.

13. RISK MANAGEMENT ISSUES

13.1 The risks in respect of the General Fund Budget 2018/19 have already been set out in detail in Report C/17/69 to Cabinet 14 December 2017 but are repeated below (and updated where applicable).

Perceived risk	Seriousness	Likelihood	Preventative action
Deteriorating economic climate	Medium	Medium	Setting of a prudential budget and continuing strong financial control in the Council's decision making.
Business Rates Localisation Scheme	High	Medium	Significant degree of uncertainty means close monitoring and modeling of the impact will be required. Budget has been reviewed in light of final NNDR1 and will continue to be reviewed
Reduction in Government grant	High	High	Monitor closely Government announcements and identify early action to address any shortfall. Proactive work including revenue streams that the Council is pursuing in anticipation of further reduction in Government grant.
Budget strategy not achieved.	High	Low-medium	Close control of the budget making process and a prompt and decisive response to addressing budget issues. Stringent budget monitoring and reporting during 2018/19 and future years.
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.

14. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

14.1 Legal Officer's Comments (DK)

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

14.2 Finance Officer's Comments (CS)

The Financial implications are detailed in the report.

14.3 Diversities and Equalities Implications (CS)

The Equality Impact Assessment will be presented in the 28 February 2018 Budget and Council Tax 2018/19 report to Council.

15. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley – Head of Finance

Telephone: 01303 853420

07935 517986

Email charlotte.spendley@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

- Budget working papers
- 11 October 2017 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2018/19 to 2021/22
- 15 November 2017 - Reports to Cabinet - Budget Strategy 2018/19 and Fees & Charges 2018/19
- 14 December 2017 - Report to Cabinet - Draft General Fund Original Revenue Budget 2018/19
- 17 January 2018 - Report to Cabinet - Update to the General Fund Medium Term Capital Programme

This Report will be made public on 20 February 2018

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/78**

To: Cabinet
Date: 28 February 2018
Status: Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Member: Malcolm Dearden, Finance

Subject: TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT FOR 2018/19

SUMMARY: This report sets out the proposed strategy for treasury management for 2018/19 including the Annual Investment Strategy and Treasury Management Indicators to be approved by full Council. This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2018/19 to be approved by full Council.

REASONS FOR RECOMMENDATION:

Cabinet is asked to agree the recommendations set out below because:-

- a) The Council must have regard to both CIPFA's Code of Practice for Treasury Management in the Public Services and the CLG's Guidance on Local Authority Investments when carrying out its duties under Part 1 of the Local Government Act 2003.
- b) The Council must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part 1 of the Local Government Act 2003.
- c) The Financial Procedure Rules requires the Council to receive an annual plan and strategy for treasury management in advance of the financial year.
- d) The Council is required to approve an Annual Investment Strategy for the forthcoming year.
- e) The Council is required to approve a Minimum Revenue Provision statement for 2018/19 in advance of the start of the financial year.

RECOMMENDATIONS:

- 1. To receive and note Report C/17/78.**
- 2. To recommend to Council that the strategy for treasury management in 2018/19 set out in the report is adopted.**
- 3. To recommend to Council that the 2018/19 Annual Investment Strategy set out in the report is adopted.**
- 4. To recommend to Council the approval of the treasury management indicators set out in the report.**
- 5. To recommend to Council the approval of the Prudential Indicators for capital and borrowing set out in the appendix 3 to this report.**
- 6. To recommend to Council the approval of the Minimum Revenue Provision (MRP) Policy Statement for 2018/19 set out in appendix 4 to this report.**

DRAFT

1. INTRODUCTION

- 1.1 In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In December 2017 CIPFA issued a revised Code of Practice and it is no longer a requirement for the Authority to adopt this as it now has to have regard to it by law.
- 1.2 In addition, the former Department for Communities and Local Government (now the Ministry of Housing, Communities and Local Government, MHCLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. The MHCLG has recently consulted over proposed changes to their Guidance and, at the time of writing, the outcome of this is not known. Should there be any material changes required to the Treasury Management Strategy Statement (TMSS) for 2018-19 arising from changes to the MHCLG Guidance then it is likely a revised TMSS will be submitted to full Council for approval later in the year.
- 1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance.
- 1.4 The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 1.5 In accordance with the MHCLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement (TMSS) should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.
- 1.6 The Authority's major capital investment initiatives, such as Otterpool Park, Biggins Wood and other asset investment initiatives, remain to be reported in detail to Members for approval. When approved, these initiatives are likely to require the TMSS to be revised.
- 1.7 This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2018/19 to be approved by full Council.

2. ECONOMIC OUTLOOK AND PROSPECT FOR INTEREST RATES

(Commentary supplied by the council's Treasury Adviser, Arlingclose)

2.1 Economic Background

- 2.1.1 The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.
- 2.1.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.
- 2.1.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

2.2 Credit Outlook

- 2.2.1 High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.
- 2.2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.
- 2.2.3 The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.3 Interest Rate Forecast

- 2.3.1 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to rise in May 2018 from its current level of 0.50% to 0.75% with a further increase forecast for later in the year to 1.0%. Arlingclose also anticipate another rise in the Bank Rate to 1.25% by mid-2019. Arlingclose's advice reflects comments from the Monetary Policy Committee at its meeting in February 2018 regarding private sector earnings growth and its impact on inflation together with slightly improved growth prospects.
- 2.3.2 The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk. Overall, the risk to Arlingclose's forecasts is weighted on the downside reflecting concerns about the impact of the exit from the European Union on UK growth in particular.
- 2.3.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix 1**.
- 2.3.4 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.83%. No new long-term loans have been anticipated in the budget.

3. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

- 3.1 On 31 December 2017 the Authority held £57.9m of borrowing and £50.9m of investments. This is set out in further detail at Appendix 2. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	18.5	19.1	25.2	37.5	37.9
HRA CFR	47.4	47.4	47.4	49.6	52.5
Total CFR	65.9	66.5	72.6	87.1	90.4
Less: External borrowing	59.5	57.8	55.9	68.2	75.1
Internal borrowing	6.4	8.7	16.7	18.9	15.4
Less: Usable reserves	(37.2)	(29.4)	(26.9)	(20.6)	(17.1)
Less: Working capital	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Investments	(34.3)	(24.2)	(13.7)	(5.2)	(5.2)

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is

to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 3.3 The movement in table 1 is based on the projected outturn for the current financial year, the draft revenue and capital budgets being proposed for 2018/19 and information taken from the latest approved Medium Term Financial Strategy for 2019/20 and 2020/21. The table includes assumptions regarding proposals for additional capital investment in the council's housing and regeneration company, Oportunitas Limited, and the Princes Parade leisure and housing development. In both cases, these schemes will be subject to further reports to Members for approval.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

4. BORROWING STRATEGY

- 4.1 The Authority currently holds £57.9 million of loans, a reduction of £1.6 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority currently does not expect to need to borrow in 2018/19. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £90 million for 2018/19.

4.2 Objectives

- 4.2.1 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

4.3 Strategy

- 4.3.1 Given the significant reductions to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 4.3.2 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of both internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed

rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.3.3 Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.3.4 In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

4.4 Sources of Borrowing

4.4.1 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.4.2 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.4.3 The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.5 Short-term and Variable Rate Loans

4.5.1 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.6 Debt Rescheduling

4.6.1 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. INVESTMENT STRATEGY

5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017, the Authority's investment balance has ranged between £33 and £56 million with the average being £45 million. The average investment balance held is expected to reduce to around £39 million in the coming year as the council uses its reserves to meet its approved capital expenditure plans in particular.

5.2 Objectives

5.2.1 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.2.2 **Negative Interest Rates** - If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.3 Strategy

5.3.1 Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. This is especially the case for the estimated £23m that is available for longer-term investment. A significant proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the new strategy adopted in 2017/18.

5.4 Approved Counterparties

5.4.1 The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown. On the advice of Arlingclose, the corporate and registered providers are proposed to be added to the Authority's counterparty types for the first time.

Table 2: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2018

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£5m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£5m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£5m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£5m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£5m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None	£1m 6 months	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£5m per fund				

This table must be read in conjunction with the notes below

5.4.2 Credit Rating - Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.4.3 Banks Unsecured - Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

5.4.4 Banks Secured - Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time

limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 5.4.5 **Government** - Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.4.6 **Corporates** - Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
- 5.4.7 **Registered Providers** - Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.
- 5.4.8 **Pooled Funds** - Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.4.9 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 5.4.10 **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and end of day balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

5.5 Risk Assessment and Credit Ratings

5.5.1 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.5.2 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.6 Other Information on the Security of Investments

5.6.1 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.6.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.7 Specified Investments

5.7.1 The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or

- a body or investment scheme of “high credit quality”.

5.7.2 The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

5.8 Non-specified Investments

5.8.1 Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£23m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£15m
Total non-specified investments	£38m

5.9 Investment Limits

5.9.1 The Authority’s revenue reserves available to cover investment losses are forecast to be £15 million 31st March 2018. In order that no more than 35% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Registered Providers	£10m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£25m in total

5.10 Liquidity Management

5.10.1 The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

5.11 Non-Treasury Investments

5.11.1 Although not classed as treasury management activities in terms of investment for cash flow management, the Authority may also purchase property for investment purposes, such as the land at Otterpool Park, and may also make loans and investments for service purposes, for example as equity investments and loans to the Authority's subsidiary, Oportunitas Limited.

5.11.2 Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with the specific requirements of this treasury management strategy.

5.11.3 The Authority's existing non-treasury investments are summarised as part of Appendix 2.

6. TREASURY MANAGEMENT INDICATORS

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

- 6.2 **Security** - The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A

- 6.3 **Liquidity** - The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£5m

- 6.4 **Interest Rate Exposures** - This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	£66m	£73m	£75m
Upper limit on variable interest rate exposure	£0m	£0m	£0m

- 6.5 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

- 6.6 **Maturity Structure of Borrowing** - This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	30%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

- 6.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
- 6.8 **Principal Sums Invested for Periods Longer than 364 days** - The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£23m	£18m	£13m

7. OTHER ITEMS

- 7.1 There are a number of additional items that the Authority is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

7.2 Policy on Use of Financial Derivatives

- 7.2.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 7.2.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.3 Policy on Apportioning Interest to the HRA

- 7.3.1 On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the

HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

7.4 Investment Training

- 7.4.1 The needs of the Authority's treasury management staff for training in investment management are assessed as part of the regular staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 7.4.2 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to undertake studying for relevant professional qualifications.

7.5 Investment Advisers

- 7.5.1 The Authority appointed Arlingclose Limited as treasury management advisers with effect from 1 April 2016 on an initial three year contract with a provision for a further two year extension and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the council's treasury management staff with reference to the agreed specification and particular attention is given to the timeliness and relevance of the information received.

7.6 Investment of Money Borrowed in Advance of Need

- 7.6.1 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.
- 7.6.2 The total amount borrowed will not exceed the authorised borrowing limit of £90 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

8. FINANCIAL IMPLICATIONS

- 8.1 The net revenue cost of the council's treasury management borrowing and investment activity based on information at budget setting time is estimated to be:

£'000	2017/18 Estimate	2017/18 <i>Latest Projection</i>	2018/19 Estimate	Variance 2017/18 to 2018/19
Revenue Budgets	£'000	£'000	£'000	£'000
Interest on Borrowing	2,114	2,114	2,049	(65)
HRA Element	(1,676)	(1,676)	(1,597)	79
GF Borrowing Cost	438	438	452	14
Investment income	(357)	(418)	(534)	(177)
HRA Element	52	44	75	23
GF Investment income	(305)	(374)	(459)	(154)
Net Cost (GF)	133	64	(7)	(140)

- 8.2 The main reasons for the projected net reduction in General Fund borrowing costs of £140k from the 2017/18 estimate to the 2018/19 estimate are:

	£'000
i) Increase in investment income from projected higher cash reserves and balances in 2018/19 compared to 2017/18	(50)
ii) Increase in investment income from forecast higher average returns in 2018/19 compared to 2017/18 planned to be achieved from further diversification into pooled products providing the opportunity for enhanced returns over longer periods	(127)
iii) Reduction in interest payable on borrowing due to maturing loans falling out	(65)
iv) Adjustments in charges between the General Fund and HRA	102
Net reduction in costs to General Fund	(140)

9. OTHER OPTIONS CONSIDERED

- 9.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director for Organisational Change, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 TO 2020/21

10.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code promotes the freedom of a local authority to determine locally what it needs to borrow to finance its future capital spending. However, the Code requires the Council to have regard to the following matters when arriving at its decisions:

- i. affordability – eg implications for Council Tax and housing rents,
- ii. prudence and sustainability – eg implications for external borrowing,
- iii. value for money – eg options appraisal,
- iv. stewardship of assets – eg asset management planning
- v. service objectives, and
- vi. practicality – eg achievability of the medium term financial plan.

10.2 The Council is asked to approve the prudential indicators set out in **appendix 3** for the period up to 2020/21. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the council's underlying capital appraisal system and approved capital programme.

The Prudential Code requires the Authority to monitor the prudential indicators each year.

11. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2018/19

- 11.1 The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.
- 11.2 Regulations have been issued by the MHCLG which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is asked to approve the MRP Statement shown in **appendix 4** to be applicable for 2018/19.

12. RISK MANAGEMENT ISSUES

- 12.1 Inherently treasury management is concerned with the management of risk, e.g. interest rate risk, market risk, credit risk and liquidity risk. The strategies in this Report are developed to minimise the impact of risk changes whilst at the same time providing a framework for the council to reduce its net interest costs.
- 12.2 Specific risks to be addressed are as follows:

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION
Interest Rate Risk (rates moving significantly different to expectations)	High	Medium	Rate rises would be beneficial but if rates fall the council would need to consider further fixed rate investments or debt rescheduling to mitigate impact.
Market Risk (adverse market fluctuations affect	Medium	Low	A limit is placed on the value of principal exposed to changes

value of investment capital)			in market value.
Credit Risk (risk to repayment of Capital)	High	Medium	The council's investment criteria restricts counterparties to those of the highest quality and security.
Liquidity Risk (risk that cash will not be available when needed)	Medium	Medium	Council's investment portfolio structured to reflect future liquidity needs. Temporary borrowing is also available to meet short term liquidity issues.
Changes to the Capital Programme and/or revenue streams	High	Medium	Cash flows are calculated monthly and regular projections are made to identify changes to the council's funding requirements. Prudential borrowing to support capital expenditure can be used for schemes expected to provide a financial benefit to the council. Otherwise only realised capital receipts are used to fund the approved capital programme. There may be some slippage in capital expenditure between years and the impact will be monitored.

13. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

13.1 Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. The Council must bear in mind its fiduciary duties to local tax payers and its continuing obligation to ensure it has funding to perform relevant statutory undertakings it has to comply with.

13.2 Finance Officer's Comments (LW)

The report has been prepared by Financial Services and the relevant financial implications are contained within it.

14. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting:

Lee Walker – Group Accountant

Tel: 01303 853593 Email: lee.walker@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose's Treasury Management Strategy Statement Template 2018/19

Appendices

Appendix 1 – Arlingclose Economic and Interest Rate Forecast

Appendix 2 - Existing Investment & Debt Portfolio Position

Appendix 3 – Capital Prudential Indicators 2018/19 to 2020/21

Appendix 4 – Minimum Revenue Provision Policy Statement 2018/19

Appendix 1 – Arlingclose Economic & Interest Rate Forecast February 2018

Underlying assumptions:

- The MPC has raised expectations for further rises in Bank Rate, both sooner and to a higher level than previously anticipated by markets. Reiterating the view of the UK economy's impaired supply capacity and survey data of higher private sector earnings growth, meaning inflationary outcomes are more likely, the MPC also revised the UK's economic growth prospects slightly higher due to the pull of global economic momentum.
- Significantly, the MPC also decided to shorten the forecast horizon over which inflation will be brought back to the CPI target.
- The MPC believes that soft domestic consumption will recover as the inflationary impact of weaker sterling fades. Their projections assume that households and companies base their decisions on a smooth adjustment to the new trading relationship with the EU.
- However, the additional moves made by the Bank to intentionally raise interest rate expectations suggests a wider strategy. By moving quickly and creating the conditions for monetary tightening, monetary policy will be a more effective weapon should downside Brexit risks crystallise.
- Our view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q4 2017 GDP growth was 0.5%, after a 0.4% expansion in Q2. Household consumption growth has softened, despite high employment and low saving rates. Housing markets are soft. **Nevertheless, we cannot disregard the MPC's forceful intent and signal in the *February Inflation Report* and accompanying commentary.**
- The depreciation in sterling is assisting the economy to rebalance away from spending. Export volumes have increased, helped by a stronger global and Eurozone economic expansions.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Over the near term, Arlingclose must forecast the MPC's actions rather than the expected level of monetary policy given our assessment of the UK economy. There is clear momentum on the MPC for higher Bank Rate and this is likely to crystallise from May 2018.
- The MPC has heightened expectations of more increases in bank Rate and at a quicker pace despite only modest changes in inflation and growth forecasts, based on the bank's perceptions of impaired supply capacity and a desire to bring inflation back to target more quickly.
- Our central case is for Bank Rate to rise twice in 2018 and once more in the first half of 2019. The risks are weighted to the downside.

- Gilt yields have risen but remain historically low; current yields already incorporate higher Bank Rate expectations, so we expect little further upward movement.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.08
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.58
3-month LIBID rate														
Upside risk	0.00	0.05	0.10	0.10	0.20	0.20	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.22
Arlingclose Central Case	0.50	0.75	0.85	1.00	1.10	1.35	1.35	1.35	1.35	1.30	1.30	1.30	1.30	1.14
Downside risk	0.00	-0.25	-0.30	-0.40	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.57
1-yr LIBID rate														
Upside risk	0.05	0.10	0.20	0.20	0.30	0.30	0.35	0.35	0.40	0.50	0.50	0.50	0.50	0.33
Arlingclose Central Case	0.70	0.95	1.10	1.30	1.40	1.65	1.65	1.60	1.55	1.50	1.50	1.50	1.50	1.38
Downside risk	0.00	-0.25	-0.30	-0.40	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.57
5-yr gilt yield														
Upside risk	0.20	0.20	0.20	0.20	0.20	0.25	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.31
Arlingclose Central Case	1.15	1.35	1.40	1.50	1.55	1.60	1.65	1.70	1.70	1.70	1.65	1.65	1.65	1.56
Downside risk	-0.10	-0.30	-0.35	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.50
10-yr gilt yield														
Upside risk	0.15	0.20	0.20	0.20	0.25	0.25	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.30
Arlingclose Central Case	1.65	1.80	1.85	1.90	2.00	2.05	2.10	2.15	2.15	2.15	2.05	2.05	2.05	2.00
Downside risk	-0.10	-0.30	-0.35	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.50
20-yr gilt yield														
Upside risk	0.15	0.20	0.20	0.20	0.25	0.25	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.30
Arlingclose Central Case	2.00	2.10	2.15	2.15	2.20	2.25	2.25	2.20	2.15	2.20	2.20	2.20	2.20	2.17
Downside risk	-0.10	-0.30	-0.35	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.50
50-yr gilt yield														
Upside risk	0.15	0.20	0.20	0.20	0.25	0.25	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.30
Arlingclose Central Case	1.80	1.95	2.00	2.00	2.05	2.10	2.10	2.05	2.00	2.05	2.05	2.05	2.05	2.02
Downside risk	-0.10	-0.30	-0.35	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.50

Appendix 2 – Existing Investment & Debt Portfolio Position

	Actual Portfolio at 31 December 2017 £m	Average Rate %
External Borrowing:		
Public Works Loan Board	57.4	3.65
Local Authorities	0.5	2.32
Total External Borrowing	57.9	3.64
Investments:		
Banks (unsecured)	6.0	0.68
Covered bonds (secured)	7.3	0.63
Local Authorities	13.0	0.59
Money Market Funds	14.4	0.37
Pooled Funds	10.4	2.75
Total Investments	51.1	0.98
Net Debt	6.8	
Non-Treasury Investments		
Investment Property	7.8	2.60
Shares in Subsidiaries	0.5	0.00
Loans in Subsidiaries	3.1	4.88
Total	11.4	3.10

Appendix 3

Prudential Indicators 2018/19 to 2020/21

1. Capital Expenditure Plans

- 1.1 The council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. The plans are consistent with the latest Medium Term Capital Programmes (MTCP) for the General Fund and the Housing Revenue Account (HRA), previously considered by Cabinet in separate reports as part of the budget process for 2018/19 and submitted to full Council for approval later today. Both the General Fund and HRA capital programmes require some prudential borrowing to fund future capital expenditure plans and this is reflected in the borrowing limits being proposed as part of these indicators and is also covered earlier section 4 of the main Treasury Management Strategy Statement.
- 1.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as future capital receipts and revenue resources to fund capital, may also be subject to change over this timescale. To mitigate this risk capital schemes to be funded from future capital resources will not be allowed to commence until these sums have been received or confirmed.
- 1.3 **The Council is asked to approve the summary capital expenditure projections below.** This forms the first prudential indicator:

Prudential Indicator 1 – Capital Expenditure Projections

£'000	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Expenditure				
Non-HRA	3,493	13,629	30,478	7,934
HRA	10,132	8,574	9,330	9,751
Total	13,265	22,203	39,808	17,865
Funded by:				
Capital receipts	(2,296)	(2,447)	(14,400)	(5,100)
Capital grants	(2,327)	(5,090)	(3,265)	(1,858)
Capital reserves	-	-	-	-
Revenue (GF)	(1,490)	(1,112)	(138)	(138)
Major Repairs Reserve (HRA)	(3,397)	(3,500)	(4,233)	(4,318)
Revenue (HRA)	(3,726)	(3,566)	(2,921)	(2,497)

Net financing need for the year	389	6,488	14,851	3,774
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2. The Council's Borrowing Need (The Capital Financing Requirement)

- 2.1 The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure, above, which has not immediately been paid for will increase the CFR. The CFR projections now include the borrowing requirement identified in Prudential Indicator 1, above.
- 2.2 The CFR does not increase indefinitely as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.
- 2.3 **The Council is asked to approve the Capital Financing Requirement (CFR) projections below:**

Prudential Indicator 2 – CFR Projections

£'000	2017/18	2018/19	2019/20	2020/21
As at 31st March	Projection	Estimate	Estimate	Estimate
CFR – Non Housing	18,452	24,566	36,883	37,265
CFR - Housing	47,417	47,417	49,593	52,529
Total CFR	65,869	71,983	86,476	89,794
Movement in CFR	-	6,114	14,493	3,318

Movement in CFR represented by				
Net financing need for the year (P.I. 1)	389	6,488	14,851	3,774
Less MRP	(389)	(374)	(358)	(456)
Less HRA financing movement	-	-	-	-
Movement in CFR	-	6,114	14,493	3,318

3. Gross Debt and the Capital Financing Requirement

3.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	57.8	55.9	68.2	75.1
Other long-term liabilities	-	-	-	-
Total Debt	57.8	55.9	68.2	75.1
CFR	65.9	72.0	86.5	89.8

3.2 Total debt is expected to remain below the CFR during the forecast period.

4. Borrowing Limits

4.1 **Operational Boundary for External Debt** - This is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	65.9	87.0	91.0	94.0
Other long-term liabilities	-	-	-	-
Total Debt	65.9	72.5	91.0	94.0

4.2 **Authorised Limit for External Debt:** This is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the

maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	69.9	90.0	93.3	96.4
Other long-term liabilities	-	-	-	-
Total Debt	69.9	90.0	93.3	96.4

5. Affordability Prudential Indicators

5.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall council's finances. **The Council is asked to approve the following indicators:**

5.2 **Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The revenue stream for non-HRA is the amount to be met from government grant and council tax payers and for the HRA is rent and other income.

Prudential Indicator 3 - Ratio of financing costs to net revenue stream

%	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	13.7%	10.0%	3.9%	5.3%
HRA	33.3%	32.1%	26.3%	22.6%

5.3 The estimates of financing costs include current commitments and the proposals in both the General Fund and HRA revenue and capital budget reports. The changes to the Non-HRA figures reflect the planned reduction in the use of revenue resources to support the capital investment included in the Medium Term Capital Programme. The changes in the HRA's figures mainly reflect the revenue financing required to meet the cost of the planned capital investment on the 'new build' and acquisitions programme.

- 5.4 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with *new schemes* introduced to the Medium Term Capital Programme recommended in the budget report compared to the council’s existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

Prudential Indicator 4 - Incremental impact of capital investment decisions on the Band D Council Tax

£	Proposed Budget 2018/19	Forward Projection 2019/20	Forward Projection 2020/21
Council Tax - Band D	(£1.22)	(£1.46)	(£1.10)

- 5.5 These values reflect the net General Fund savings forecast to be received from the council’s capital investment plans included in the Medium Term Capital Programme.

- 5.6 **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council Tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget report compared to the council’s existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Prudential Indicator 5 - Incremental impact of capital investment decisions Housing Rent levels

Impact per property per rent week	Proposed Budget 2018/19	Forward Projection 2019/20	Forward Projection 2020/21
Weekly Housing Rent levels	(£1.09)	(£1.88)	(£2.62)

- 5.7 This indicator shows the revenue impact of the latest HRA capital programme on the average weekly housing rent for the HRA. This indicator reflects the additional rental income the council is forecast to receive from the HRA’s new

build and housing acquisitions programme. The new build programme is expected to generate a net surplus for the HRA which, in turn, will contribute to the planned repayment of its debt over the 30 year life of the current business plan.

5.8 Local Indicators - HRA Debt Ratios

- 5.8.1 CIPFA's Prudential Code recommends the use of local indicators to measure the affordability and sustainability of the HRA's debt over the medium term. The following two local indicators consider the total level of HRA debt and how its proportion is changing over the next three year period. Both these indicators are consistent with the HRA Business Plan and the increase in borrowing required to fund its capital expenditure plans.

i) HRA Debt to Revenue Ratio

	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt £m	49.6	48.4	49.7	51.3
HRA revenues £m	16.0	16.2	16.8	17.4
Ratio of debt to revenues	3.1	3.0	3.0	3.0

ii) HRA Debt per Dwelling

	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt £m	49.6	48.4	49.7	51.3
Number of HRA dwellings	3,393	3,371	3,396	3,421
Debt per dwelling £'000	14.6	14.4	14.6	15.0

Appendix 4

Minimum Revenue Provision (MRP) Policy Statement 2018/19

1. The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.
2. Regulations have been issued by the Ministry of Housing, Communities and Local Government (MHCLG) which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. **The Council is recommended to approve the following MRP Statement to be applicable for 2018/19.**
 - i. **For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:**
 - **Existing practice - MRP will follow the existing practice outlined in former DCLG Regulations (4% of balance of CFR at 31.3.08)**
 - ii. **From 1 April 2008 for unsupported borrowing the MRP policy will be:**
 - **Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations.**
3. **Additionally the council is free to determine an alternative MRP approach provided that it is prudent. These alternatives may include a variation on the above options or may take other forms as determined by the Chief Finance Officer. For instance, where the council acquires assets funded from unsupported borrowing for the purpose of site assembly with the aim of disposing to developers in the future, then the council may determine a nil MRP charge is prudent on the understanding that the capital receipt from the disposal is used repay the borrowing and extinguish the CFR relating to it. Any unsupported borrowing falling on capital expenditure falling into this category will be reviewed annually and if for any reason a capital receipt will not be received within a specified timeframe as determined by the Chief Finance Officer relating to the asset acquired then the unsupported borrowing will revert back to the normal MRP treatment applicable including an adjustment for MRP due for previous years that may not have been previously charged.**
4. No statutory revenue charge or MRP is required for the HRA. However, as part of the approved HRA Business Plan, Cabinet approved an affordable strategy to repay the HRA's total debt, represented by its capital financing

requirement (HRACFR), currently over the next 30 years. No HRA debt is planned to repaid in 2018/19.

5. Any deviation from the approved policy in year will, as a minimum, be addressed in the MRP Policy Statement for the subsequent financial year.

This Report will be made
public 20 February 2018

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report **C/17/81**

To: Cabinet
Date: 28 February 2018
Status: Key Decision
Director: Susan Priest, Corporate Director, Strategic Development
Cabinet Member: Leader of the Council, Councillor David Monk

SUBJECT: FUTURE STRATEGY - OPORTUNITAS LIMITED

SUMMARY: This report recommends a future direction for the Council's Regeneration & Housing Company, Oportunitas. It positions the future of the company in the context of the Council's Corporate Plan and Investment Strategy, and draws heavily on the outcomes of a financial remodelling exercise undertaken by the Council as the sole Shareholder, to identify the required level of investment and the appropriate debt to equity funding structure, to ensure that income returns to the Council are optimised while also allowing Oportunitas to become financially sustainable.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below on the basis that:

1. Oportunitas continues to deliver outcomes that directly address Corporate Plan priorities;
2. Oportunitas provides a revenue income stream to the Council and has secured capital growth in assets;
3. The initiative is tried and tested, controls and processes are established with a high degree of assurance; and
4. There is a wealth of opportunities to pursue in continuing to address the regeneration and housing needs of the district.

RECOMMENDATIONS:

Cabinet is asked to approve the following recommendations:

- 1) To receive and note the contents of report C/17/81.
- 2) To approve the outcomes from the strategic review of the company;
- 3) To approve that a further investment of £6,900,000 is required to be made in Oportunitas Limited for it become financially sustainable in the long term;
- 4) To approve the change in the overall debt to equity ratio for the council's total investment in Oportunitas Limited to 58% debt and 42% equity;

- 5) To seek Council's approval to a further equity investment of £4,430,000 in Oportunitas Limited to support expansion of its property acquisitions activity to be met from prudential borrowing, the release of the funds being subject to Cabinet approval of a Business Plan from Oportunitas Limited for 2018-19;
- 6) To seek Council's approval to provide a further investment loan of up to £2,470,000 to Oportunitas Limited to support expansion of its property acquisitions activity to be met from prudential borrowing, the release of the funds being subject to Cabinet approval of a Business Plan from Oportunitas Limited for 2018-19;
- 7) To authorise the Head of Democratic Services and Law in conjunction with the Corporate Directors for Strategic Development and Organisational Change to determine the arrangements and enter into the legal agreements for the proposed additional equity and debt investment by the council in to Oportunitas Limited; and
- 8) To authorise the Corporate Director for Organisational Change in conjunction with the Head of Democratic Services and Law to determine the requirement for the liquidity loan facility of £300,000.

1. BACKGROUND

- 1.1 Oportunitas was established as a result of SDC's Cabinet asking officers in December 2013 to work up full proposals to establish a Regeneration & Housing Company as a priority action within SDC's Corporate Plan 2013-2018.
- 1.2 The activities of the Company were directed towards achieving three of Shepway's strategic objectives:
 1. **The need for more homes in the district** – to help increase overall housing supply; delivering more new affordable family housing; occupying empty properties, and encouraging private sector activity;
 2. **Boosting the local economy and job opportunities** – by unlocking and redeveloping key employment sites; and
 3. **Delivering value for money** – by developing new models of publicly owned housing, reducing housing costs and being able to trade on a full commercial basis.
- 1.3 The current Corporate Plan 2017-2020 includes three directly relevant strategic objectives which Oportunitas continues to support the Council in addressing:
 1. **More Homes** – to provide and enable the right amount, type and range of housing;
 2. **More Jobs** – to work with business to provide jobs in a vibrant local economy; and
 3. **Achieving Stability** – achieving financial stability through a commercial and collaborative approach.
- 1.4 Formal approval of the company's Business Case was given by Cabinet on 16th July 2014, with Cabinet approving the company's first Business Plan on 30th July 2014, and Council approving investment at their meeting on 6th August 2014. Oportunitas was incorporated on 14 May 2014 and a suite of three key documents underpin the legal and operating structure of the company:
 - i. **Articles of Association** – the legal constitution of the company, its legal structure, the role and powers of Directors, the decision-making processes and the status and holding of shares;
 - ii. **Shareholder's Agreement** – this sets out the limits and qualifications on what Oportunitas is expected and able to do. The Agreement contains the detailed day-to-day control mechanisms that the Council has over Oportunitas; and
 - iii. **Service Level Agreement** – this allows Oportunitas to request the services of any officers or area of the Council which is then charged back to Oportunitas for the resources used. External resources can also be procured in line with a scheme of delegation as part of the financial controls of Oportunitas.

Company Objectives

- 1.5 The Objectives of the company are captured in the Shareholder's Agreement and are intentionally wide in order to give the shareholder plenty of opportunity to consider how best to use its wholly owned vehicle over time. They can be summarised as:
 - To lead regeneration and development activity;

- To acquire housing for rent and sale;
 - To lead site development activity;
 - To facilitate development;
 - To develop housing for market rent or sale;
 - To hold and develop employment sites;
 - To deliver enabling development infrastructure;
 - To provide a vehicle for agreed trading activities.
- 1.6 The initial focus of Oportunitas was a Housing Acquisitions, Refurbishment and Rental Programme, and Grounds Maintenance trading for a variety of private and public sector clients outside of the Council's core role.
- 1.7 There was a clear intention to start modestly and review operations over time, drawing on initial lessons and considered ways of working. Three years on, there have been lessons learned and methods tested that provide the shareholder with a high degree of reassurance that appropriate controls are in place, revenue income streams have been established and capital growth of assets secured.

Direction & Management

- 1.8 Oportunitas is led by a Board of Directors, responsible for setting the annual Business Plan – the key document which guides its specific activities, and which requires annual Cabinet approval and regular monitoring. All Directors are elected members, with a quorum of the Board established by a minimum of two Senior Directors (councillors from the majority party) and one other Senior or Junior Director (from the opposition party). The Directors are: Cllr Jeffrey (Chair), Cllr Martin, Cllr Wilkins, and Cllr Lawes. Management staff is provided on a part-time basis recharged from SDC. Ultimate control and oversight of the Company rests with the Leader and the Cabinet of the Council.

Initial Funding & Financial Principles

- 1.9 The Business Case considered the pros and cons of three options for the initial investment in to Oportunitas:
- Option 1: 100% shareholder equity, provided from SDC's capital reserves;
 - Option 2: 100% loan finance (either from SDC's capital reserves or SDC prudential borrowing from the Public Works Loan Board); and
 - Option 3: A mix of loan and shareholder equity finance.
- 1.10 Advice in 2014 from public sector legal specialists, Bevan Brittan, concluded that option 3 a mix of loan and shareholder equity, drawn in the first instance from SDC reserves, was the preferred approach for the initial programme, allowing flexibility on draw-down timing, flexibility on interest rate and capital repayment charges, with State Aid compliance managed within the de minimis rules. Cabinet approval (decision C/14/21) and Council support (decision A/14/16) was given with full knowledge that the initial debt to equity ratio (90:10) would not be sustainable in the long term due to the initial modest investment approach along with set up and ongoing costs, and a strategic review was therefore programmed to be undertaken; a

summary of the results are reported below with more detailed on the financial aspects included in the appendices to this report.

2. STRATEGIC REVIEW

2.1 At the point of preparing this report, Oportunitas holds 30 residential properties and 1 commercial) and a further 4 residential units are at an advanced stage of being acquired. All, bar 8 units which are in Dover, are in Central Folkestone where the best rental yields have been found. The annual return to the shareholder has been in the order of £220,000 in 2017/18, and capital growth of assets are averaging 6% per annum.

2.2 Experience and reflections to date highlight that:

- i. Purchasing multiple units offer better deals as there are fewer potential investors that are seeking to acquire this type of property stock;
- ii. Fixed price off plan purchases give better values as early negotiations reduces the sales risk for developers;
- iii. Acquisitions have been made which have brought long term empties back into effective use, thereby supporting the regeneration of the town centre;
- iv. Property has been bought from local small development construction firms, thereby supporting local supply chains and local jobs;
- v. The current business plan target of securing rental yields at 5% and above has been achieved, although deals have been slow at times which has led to opportunities being explored beyond the district;
- vi. Grounds maintenance work for private clients has been slower than expected but Oportunitas is a trusted supplier to its local client base and there are opportunities to expand to take on larger external contracts;
- vii. Processes and ways of working have been established, relevant control mechanisms have been audited and offer a high degree of assurance;
- viii. A revenue income stream to the Council has been established which can be used to support broader objectives and activities of the Council;
- ix. Capital growth of assets has been secured which can be realized at the request of the Council; and
- x. A wide range of investment opportunities are available to be explored for example, through direct involvement in shareholder-led proposals at Biggins Wood, Princes Parade, Ship Street and Otterpool Park, etc., as well as through further private sector market-led opportunities.

2.3 In terms of the strategic future of the company, three options were considered:

Do nothing – this is increasingly challenging as the company is not yet operating at a sufficient scale to absorb the set up and overhead costs incurred under the current financial arrangement with the shareholder. This option is not recommended.

Close Oportunitas – there are two routes that could be used to wind up the company; voluntary strike off (Companies Act 2006) or voluntary liquidation (Insolvency Act 1986). While voluntary strike off would be the most efficient and quickest route, Oportunitas would have to realise its assets and repay creditors before dissolution and there would be processes to follow and activities which would incur additional costs, potential void periods resulting in loss of rental income, and overall budget considerations. This option is not recommended.

Refinancing & Scaling Up – the company becomes sustainable with additional investment of £6.9m while adopting a more prudent debt to equity ratio in the order of

58:42. Once funds are fully invested this would give a modest return to the shareholder of some 2.6%-3.1% equivalent to £300,000 - £360,000 per annum. Once capital appreciation has been considered, a more reasonable return to the shareholder is given which is in the order of 6%. This is the recommended option and more detail of the financial review is given in appendix 1.

3. BUSINESS PLANNING 2018/19

3.1 Subject to Cabinet's views on the strategic future of Oportunitas and approval for funds to be made available as outlined in section 2 of this report and detailed in the appendices, a Business Plan for 2018/19 from the Board will come forward for Cabinet's approval in March 2018.

3.2 Should Cabinet approval be given, the next steps will be to secure the appropriate capital borrowing along with the associated legal and financial agreements being put in place and then to pursue investment and trading opportunities as outlined in the Plan. Regular update reports will be given to Cabinet in line with requirements contained within the Shareholder's Agreement.

4. RISK MANAGEMENT ISSUES

4.1 A review of risks is included in the table below. These will be monitored through the year as activity against the Business Plan is reviewed and reported as appropriate to the Directors, to Corporate Management Team and to Cabinet.

Perceived Risk	Likelihood	Seriousness	Preventative Action
Financial – the expected returns to the Shareholder are not forthcoming.	Low	Medium	Close monitoring of the investment approach will be undertaken to ensure assumptions contained within the financial model are tested against activities and reviewed.
Financial - Company defaults on its financial obligations to the Council	Low	High	Security to be taken on the shareholder equity or loan provided by the Council to the Company by a first charge on each property acquired
Financial – the Company fails and any losses made fall back to the Council	Medium	High	The Council will see and approve the Company's annual business plan and will take early action if failure of the company was likely. The legal agreement will ensure that the council has the ability to enforce disposal of properties.
Financial – the valuation of the properties reduce to below the value of the Council's loan to	Low	Medium	The properties are valued annually as part of the year end

the Company resulting in an impairment cost which could fall to the Council's revenue account.			accounting process and trends in property prices are closely monitored. This risk could also be mitigated by the Company selling properties.
Communications – failure to communicate the role and benefits clearly from Oportunitas undermine the excellent work being undertaken.	Low	Medium	Modest website enhancement is being progressed to ensure that clear messages, approved by the shareholder, are provided. All communications seeks to clarify the role of the company, distinct from the Council.
Other - The Council reputation and public perception suffering in the event of the Company's failure	Low	High	Risk assessment regularly reviewed. Communications plan will be developed and maintained to ensure the Company contributes towards a positive view of the Council's services.

5. LEGAL / FINANCIAL AND OTHER CONTROLS / POLICY MATTERS

Legal Officer's Comments: (Amandeep Khroud) The power for councils to trade their services for cost recovery only has been in force for many years. The power for councils to establish companies to trade for profit is set out more recently in the Localism Act 2011. The company model provides the only mechanism for local councils to operate more commercially and generate profit.

Officers have taken specialist legal advice from Bevan Brittan and will continue to work with these external legal advisers as and when the need arises.

- Finance Officer's Comments: (Charlotte Spendley) The financial review covered in the appendix to this report has been prepared by Financial Services and the financial implications to the council as shareholder are contained within it. The key financial risks regarding the council's investment in the company are shown in the risk management matrix in the main body of the report.
- Diversities & Equalities Implications: (Susan Priest). There are no diversities and equalities implications arising from this report.

APPENDICES

CONTACT OFFICERS & BACKGROUND REPORTS

Councillors with any queries arising from this report should contact the following officers prior to the meeting:

Susan Priest, Corporate Director, Strategic Development
Telephone: 01303 853315
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Lee Walker, Group Accountant - Capital and Treasury Management
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Nicola Everden, Solicitor
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Email: nicola.everden@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

- A. Oportunitas Business Case
- B. Oportunitas – Articles of Association
- C. Oportunitas – Shareholder’s Agreement
- D. Oportunitas – Service Level Agreement

Annex 1 - Impact of Financial Review on the Company										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scenario 1 - Yields on new acquisitions at 5.0% = Blended debt/equity 58:42	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trading Income	681	695	709	723	737	752	767	782	798	814
Revaluation Gain	299	363	373	385	396	408	420	433	446	459
Direct Expenditure	-231	-209	-213	-217	-322	-328	-335	-341	-348	-355
Other Expenses	-66	-68	-69	-70	-72	-73	-75	-76	-78	-79
Interest - interest 4.88%	-330	-330	-330	-330	-330	-323	-320	-318	-315	-312
Corporation Tax - Deferred	-65	-90	-94	-87	-79	-82	-84	-87	-89	-92
Corporation Tax - Payable	0	0	0	-11	-3	-6	-7	-9	-11	-13
Net Profit after tax (inc Revaluation Gain)	288	361	376	393	327	348	366	384	403	422
Net Profit after tax (excluding Revaluation Gain)	54	88	97	95	10	22	30	38	46	55
Debt Repayment	0	0	0	0	0	-156	-42	-49	-56	-63
Balance Sheet - Cash Balance	-74	15	111	205	216	82	70	59	48	39
(Deferred CT Liability)	-65	-155	-249	-336	-415	-497	-581	-668	-757	-849
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scenario 2 - Yields on new acquisitions at 5.5% = Blended debt/equity 63:37	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trading Income	723	737	752	767	782	798	814	830	847	864
Revaluation Gain	299	363	373	385	396	408	420	433	446	459
Direct Expenditure	-242	-220	-225	-229	-340	-347	-354	-361	-368	-376
Other Expenses	-66	-68	-69	-70	-72	-73	-75	-76	-78	-79
Interest - interest 4.88%	-358	-358	-358	-358	-358	-350	-348	-346	-343	-340
Corporation Tax - Deferred	-65	-90	-94	-87	-79	-82	-84	-87	-89	-92
Corporation Tax - Payable	0	0	0	-14	-2	-6	-7	-9	-12	-14
Net Profit after tax (inc Revaluation Gain)	291	364	379	394	327	348	366	384	403	422
Net Profit after tax (excluding Revaluation Gain)	57	91	100	96	10	22	30	38	46	55
Debt Repayment	0	0	0	0	0	-156	-42	-49	-56	-63
Balance Sheet - Cash Balance	-69	22	123	218	228	94	82	71	61	53
(Deferred CT Liability)	-65	-155	-249	-336	-415	-497	-581	-668	-757	-849
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scenario 3 - Yields on new acquisitions at 6.1% = Blended debt/equity 68:32	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trading Income	769	784	800	815	832	849	866	883	901	918
Revaluation Gain	299	363	373	385	396	408	420	433	446	459
Direct Expenditure	-255	-233	-238	-242	-361	-368	-375	-383	-390	-398
Other Expenses	-66	-68	-69	-70	-72	-73	-75	-76	-78	-79
Interest - interest 4.88%	-389	-389	-389	-389	-389	-382	-380	-377	-375	-371
Corporation Tax - Deferred	-67	-91	-95	-82	-79	-82	-84	-86	-89	-92
Corporation Tax - Payable	0	0	0	-17	-2	-5	-7	-9	-12	-14
Net Profit after tax (inc Revaluation Gain)	291	366	382	400	325	347	365	385	403	423
Net Profit after tax (excluding Revaluation Gain)	59	94	104	97	8	21	29	38	46	56
Debt Repayment	0	0	0	0	0	-156	-42	-49	-56	-63
Balance Sheet - Cash Balance	-66	27	131	228	236	101	88	76	66	59
(Deferred CT Liability)	-67	-158	-253	-335	-414	-496	-580	-666	-755	-847

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Annex 2 - Impact of Financial Review on the Council										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Scenario 1 - Debt /Equity = 58:42										
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest Receivable - 4.88%	330	330	330	330	330	323	321	318	315	312
SDC Cost Reimbursement	85	87	89	91	92	94	95	98	99	102
Total Income	415	417	419	421	422	417	416	416	414	414
Interest Payable - 1.5% on 5 year PWLB	-115	-115	-115	-115	-115	-115	-115	-115	-115	-115
Net Revenue Return	300	302	304	306	307	302	301	301	299	299
Capital Employed	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687
Return on Capital Employed	2.57%	2.58%	2.60%	2.62%	2.63%	2.58%	2.58%	2.58%	2.56%	2.56%
Capital Appreciation	299	363	373	385	396	408	420	433	446	459
Return on Capital Employed with Appreciation	5.13%	5.69%	5.79%	5.91%	6.02%	6.08%	6.17%	6.28%	6.37%	6.49%
MRP met from loan repaid by Oportunitas	0	0	0	0	0	-156	-42	-49	-56	-63
Scenario 2 - Debt/Equity = 63:37										
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest Receivable - 4.88%	358	358	358	358	358	350	348	346	343	340
SDC Cost Reimbursement	85	87	89	91	92	94	95	98	99	102
Total Income	443	445	447	449	450	444	443	444	442	442
Interest Payable - 1.5% on 5 year PWLB	-115	-115	-115	-115	-115	-115	-115	-115	-115	-115
Net Revenue Return	328	330	332	334	335	329	328	329	327	327
Capital Employed	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687
Return on Capital Employed	2.81%	2.82%	2.84%	2.86%	2.87%	2.82%	2.81%	2.82%	2.80%	2.80%
Capital Appreciation	299	363	373	385	396	408	420	433	446	459
Return on Capital Employed with Appreciation	5.36%	5.93%	6.03%	6.15%	6.25%	6.31%	6.40%	6.52%	6.61%	6.73%
MRP met from loan repaid by Oportunitas	0	0	0	0	0	-156	-42	-49	-56	-63

Scenario 3 - Debt/Equity = 68:32										
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest Receivable - 4.88%	389	389	389	389	389	382	380	377	375	371
SDC Cost Reimbursement	85	87	89	91	92	94	95	98	99	102
Total Income	474	476	478	480	481	476	475	475	474	473
Interest Payable - 1.5% on 5 year PWLB	-115	-115	-115	-115	-115	-115	-115	-115	-115	-115
Net Revenue Return	359	361	363	365	366	361	360	360	359	358
Capital Employed	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687	11,687
Return on Capital Employed	3.07%	3.09%	3.11%	3.12%	3.13%	3.09%	3.08%	3.08%	3.07%	3.06%
Capital Appreciation	299	363	373	385	396	408	420	433	446	459
Return on Capital Employed with Appreciation	5.63%	6.19%	6.30%	6.42%	6.52%	6.58%	6.67%	6.79%	6.89%	6.99%
MRP met from loan repaid by Oportunitas	0	0	0	0	0	-156	-42	-49	-56	-63

Annex C - Assumptions
Oportunitas Ltd

Inflation		2.0%	
Capital appreciation (annual)		3.0%	
Voids	Gross yield	5.0%	
Bad debt provision	Gross yield	2.0%	
Combined voids and bad debt	Gross yield	7.0%	
Management fee	Gross yield	8.4%	Model has used 7.2% (plus VAT).
Insurance	Gross yield	4.3%	Model has used £350 per property.
Insurance for commercial premises	Gross yield	10.0%	Model has used £750 per property.
Minor repairs	Gross yield	7.2%	Model has used £620 per property.
Major repairs	Gross yield	14.4%	From year 10.
Management fee (commercial property)	Gross yield	8.4%	
Grounds maintenance (income)		36,000	
Grounds maintenance (expenditure)		-28,800	80% of Ground Maintenance income
Directors remuneration	16-17 projection	-8,400	In-house
SDC- Lead Officer	16-17 projection	-10,000	Recharge from SDC
SDC - Support	16-17 projection	-5,000	Recharge from SDC
SDC - Legal	16-17 projection	-10,000	Recharge from SDC
SDC - Finance	16-17 projection	-12,000	Recharge from SDC
Audit fee	16-17 projection	-3,000	Recharge from SDC
Property valuation fee	16-17 projection	-1,500	Third party fee
Company insurance	16-17 projection	-3,000	Third party fee
Accounting software support	16-17 projection	-500	Third party fee
Advertising	16-17 projection	-2,000	Third party fee
Bank charges	16-17 projection	-100	Third party fee
Contingency	16-17 projection	-4,500	In-house
		<u>-60,000</u>	
Corporation tax		20.0%	
Stamp Duty		4.0%	

Assume no disposals.

Assume no CT payable on profit generated by capital appreciation (deferred until disposal).

No dividends paid.

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