

Driving revenue and value through capital investment

APSE Briefing – 22nd February 2018



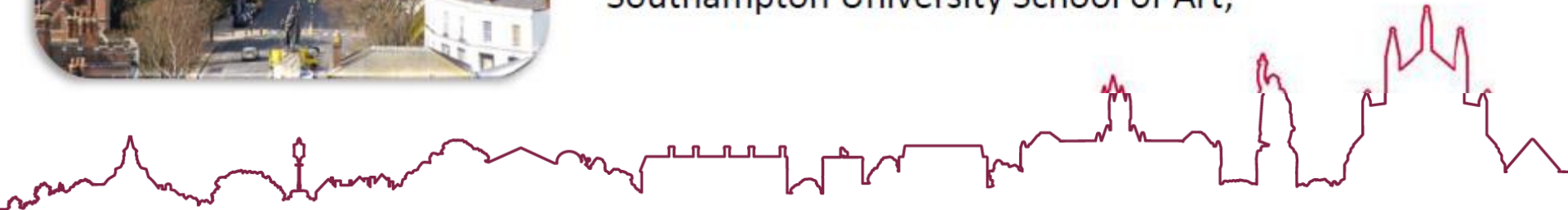
WHERE IS WINCHESTER?



WINCHESTER



- Geographic area of 256 Square Miles;
- 121,000 residents;
- 45,200 (1/3) of which live in the main town area;
- One of the lowest unemployment levels in the United Kingdom; standing at approximately 0.6%;
- Ranked #1 'Best Places to Live' survey 2016 (The Sunday Times);
- £360 Million regeneration programme
- Home to the prestigious Winchester University and Southampton University School of Art;



WINCHESTER

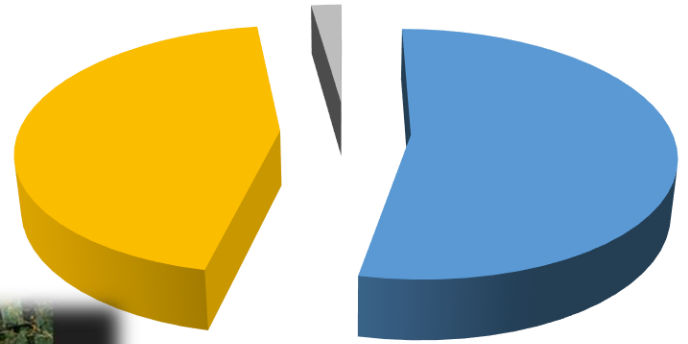
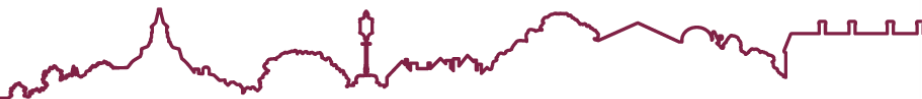
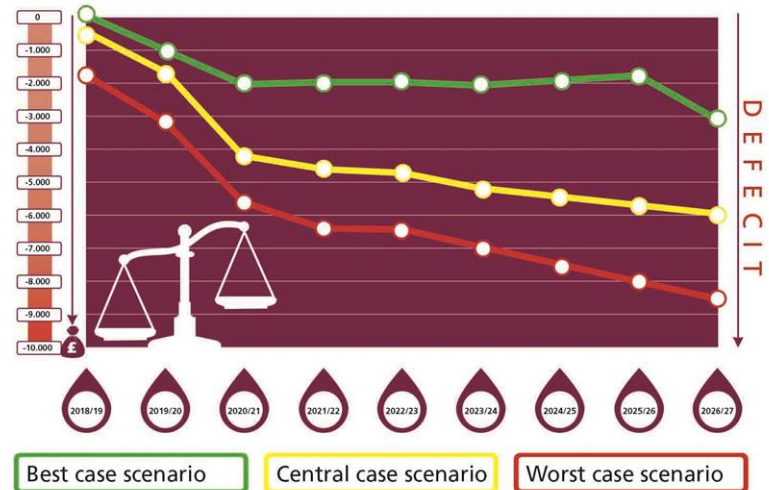


FIGURE 1 -
Sensitivity / Scenario Planning (£m)



WINCHESTER



Aerial view of Station Approach, which the Council is looking to develop into mixed use commercial as part of the aim to make Winchester a premier business destination



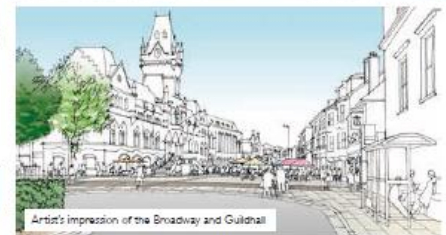
Artist's Impression of Friarsgate Market

VISION

The vision for the Central Winchester Regeneration area is for the delivery of a mixed-use, pedestrian friendly quarter that is distinctly Winchester and supports a vibrant retail and cultural / heritage offer which is set within an exceptional public realm and incorporates the imaginative re-use of existing buildings of historic interest.



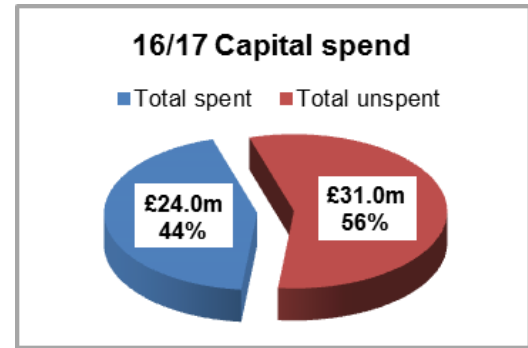
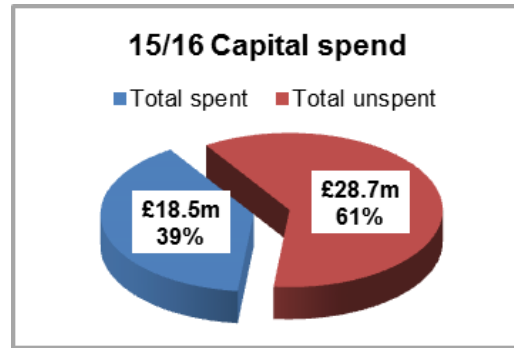
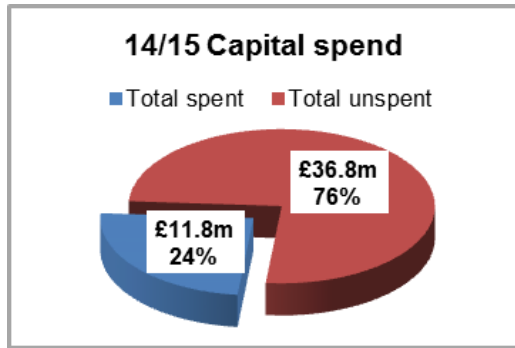
Artist's Impression of the view from the Broadway into Riverside Walk



Artist's Impression of the Broadway and Guildhall





CAPITAL PROGRAMME

Historic underspends of capital





CAPITAL PROGRAMME

Why do we have an ongoing underspend?

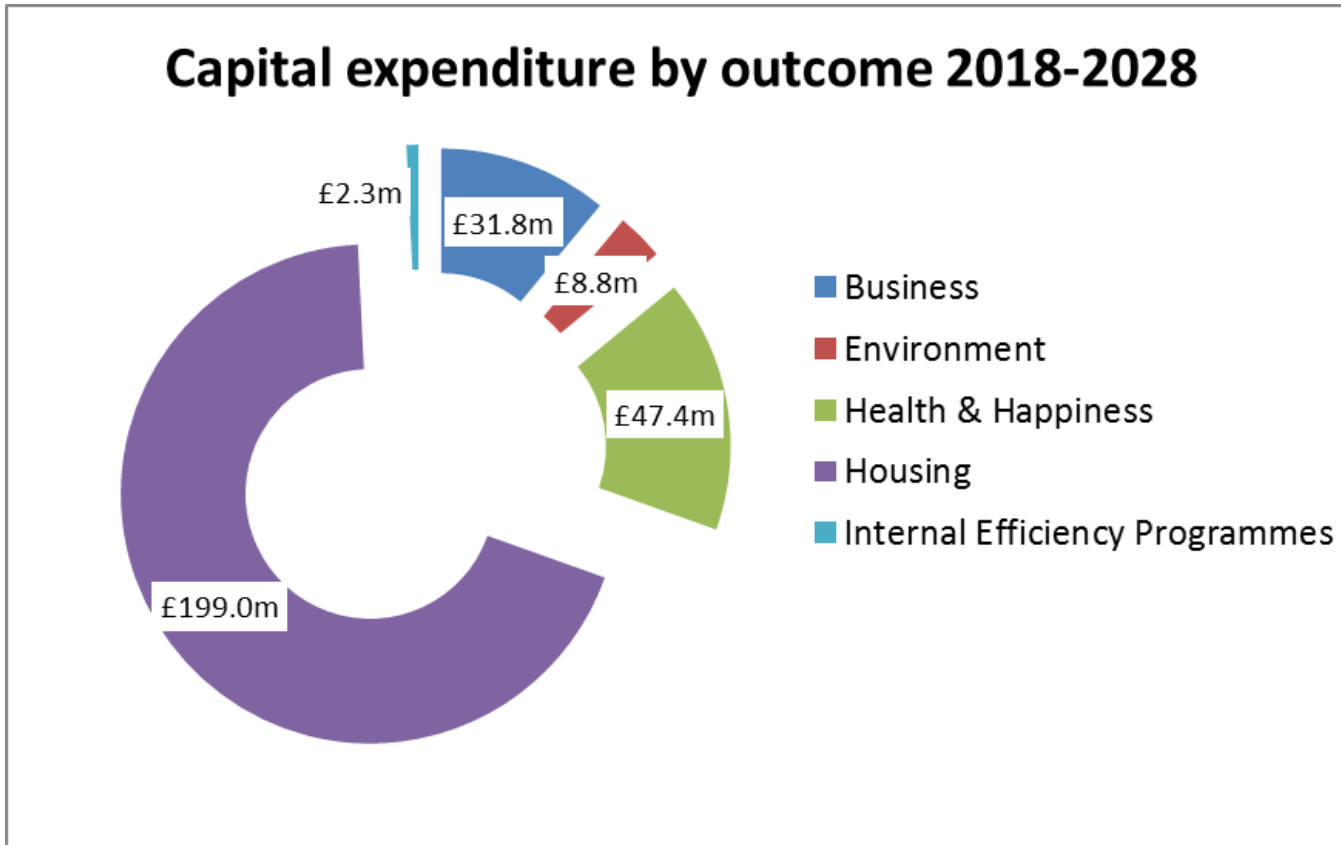
-  Nature of spend – large scale capital projects are prone to delay
-  Capital Strategy too short term?
-  Too ambitious?
-  Optimism bias?

Does it matter?

-  Outcomes aren't achieved when we want to achieve them
-  We invest our available cash shorter-term resulting in lower yields

KEY CAPITAL ASSUMPTIONS

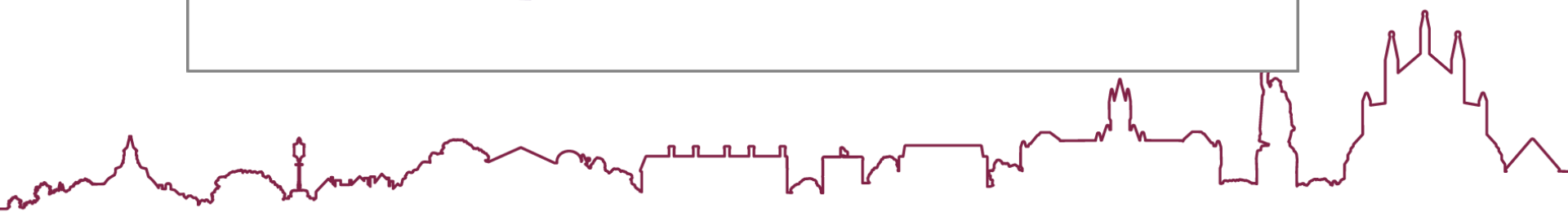
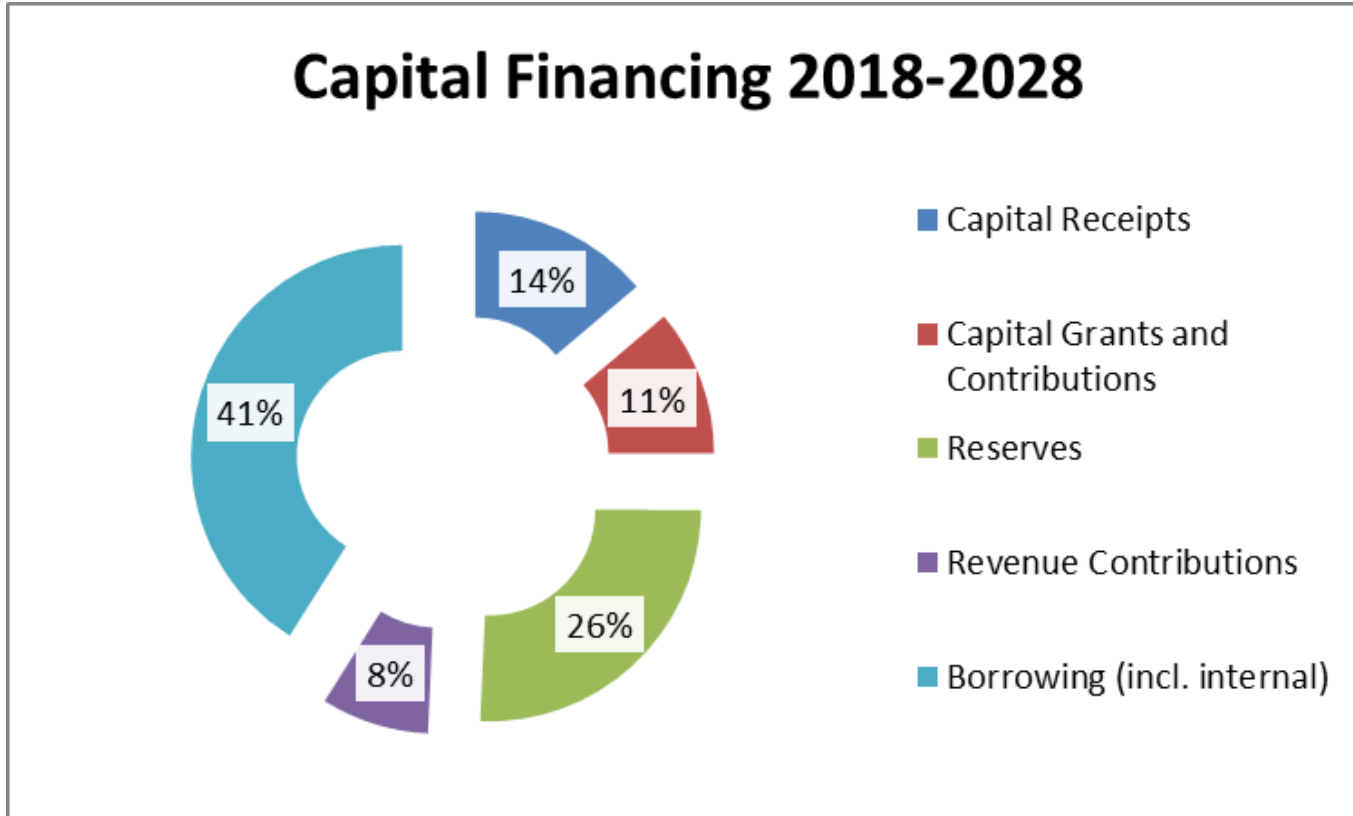
 10 year £289.4m programme:



KEY CAPITAL ASSUMPTIONS



Financed by:










STRATEGIC ASSET PURCHASE SCHEME

- £15m initially with further £15m agreed
- Is not going to provide a solution to financial challenge
- Key is 'double-win' principle
- Governance
 - £4m and over is a Full Council decision
 - Under £4m delegated to a member/officer board with s151 final approval
 - Key criteria for the scheme
- Much political debate

FIRST PURCHASE







CAPITAL SCHEMES

-  New surgery
-  Extra Care Housing scheme
-  HRA / General Fund movement on garages and commercial units
-  Housing company
-  Build 600 new Council homes over the next 3 years
-  Solar investment
-  Smart district



CAPITAL SCHEMES



-  Provide 30-50% deposits in open market property
-  Rental return to the Council
-  Sharing risk and rewards of any changes to property prices
-  Safeguards but risks



QUESTIONS?



Genesis

Common service delivery strategy devised between Cheltenham Borough Council and Cotswold District Council



Strategic decision driven by:

- ❖ *Commitment to partnership working*
- ❖ *Vision to integrate waste services*
- ❖ *Need to make cashable savings in service delivery*
- ❖ *Issues with contracted provider*
- ❖ *Need to avoid costs of insourcing*
- ❖ *Reduce waste to landfill*
- ❖ *Councils need to control their own waste strategies and service levels*



Business Plan – 2017 Position

Seven shareholding authorities

- ❖ *Cheltenham Borough Council* (04/12)
- ❖ *Cotswold District Council* (08/12)
- ❖ *Tewkesbury Borough Council* (04/15)
- ❖ *Forest of Dean Council* (04/15)
- ❖ *West Oxfordshire District Council* (04/15)
- ❖ *Stroud District Council* (02/16)
- ❖ *Gloucestershire County Council* (08/16)

Around 650 employees

Around 450 vehicles

Turnover > £30m



**COTSWOLD
DISTRICT COUNCIL**



**Forest of Dean
— DISTRICT COUNCIL —**



**WEST OXFORDSHIRE
DISTRICT COUNCIL**



**Gloucestershire
COUNTY COUNCIL**



Ubico Vision & Mission

Vision

To be the provider of choice for reliable, integrated and value for money environment services

Mission

Use our expertise to deliver innovative and excellent services that provide greater value for our shareholders and customers. Make a lasting, positive contribution to our environment and the communities in which we work.



Business Plan – Services Delivered

Fleet Maintenance and Management

Route Optimisation

Grounds Maintenance

Recycling

Street Cleaning

Bulky Waste

Public Toilet Cleaning

Nursery Operations

MOT Testing

Project Management

Trade Waste and Recycling

Drainage ditch Maintenance

Fleet Planning & Procurement

Residual Waste

Household Recycling Centres

Cemetery Maintenance

Bring Banks

Option Appraisal

Bulking

Car Park Cleaning and Gritting

Pest Control

Organic Waste

Clinical Waste

Communications

Street sign cleaning

Building Cleaning and Caretaking



Teckal Exception Recap

- ❖ *The authority controls the vehicle as if it were an internal department*
- ❖ *More than 80% of its activities are with its controlling authority*
- ❖ *There is no direct private share or ownership participation in the company*



Teckal Pros and Cons

Advantages

- ❖ *Share risks and benefits (no lead authority)*
- ❖ *Vehicle for other partners to join*
- ❖ *Platform for integration of waste services and economies of scale*
- ❖ *Savings from efficiencies benefit members*
- ❖ *Avoid additional pension costs of in-house service*
- ❖ *20% 'Headroom' and platform for greater commercial trading*

Disadvantages

- ❖ *Administrative costs of governance*
- ❖ *Set up costs borne by shareholders*
- ❖ *Need to secure finance without private sector involvement*
- ❖ *Financial risk remains with the shareholder*



Governance – Why is Ubico Different?

Shareholders' Agreement

- ❖ *Equal shares (irrespective of contract value)*
- ❖ *Each shareholder appoints one non-executive director*
- ❖ *Each shareholder appoints one “Representative”, with “full authority to act on behalf of the ... shareholder” at General Meetings*

Two executive directors (appointed by the Shareholders)

Minimum four board meetings per year

Annual Business Plan – approved by shareholders



Benefits to Shareholders

Retain individual control over service provision

Avoid costly procurement processes

Economies of scale

- ❖ *Purchasing strength*
- ❖ *Access to specialisms*
- ❖ *Service resilience*

Accountability

Flexibility

Share best practice – social franchising

Services delivered at cost



Financing

Shareholders' Agreement

- ❖ *Direct costs paid by relevant shareholders*
- ❖ *Indirect costs apportioned (by contract value)*
- ❖ *Direct savings attributed to relevant shareholders*
- ❖ *Share of profits proportional to contract value or investment*

Fixed Assets

- ❖ *All assets currently owned by shareholders (although this may change)*
- ❖ *Asset charge paid by Ubico as operator*
- ❖ *Depots and offices leased to Ubico*



Learning

- ❖ **Managing services for a wide and diverse client base**
- ❖ **Delivering cashable savings**
- ❖ **Managing growth**
- ❖ **Building resilience**
- ❖ **Building a brand**
- ❖ **Adapting to governance**
- ❖ **Diversity of requirements**
- ❖ **Communication**



Capabilities

- ❖ **Delivering efficient services**
- ❖ **Resilient professional management base**
- ❖ **Project delivery**
- ❖ **Understanding of support services**
- ❖ **Respond to market changes**
- ❖ **Agility**
- ❖ **Strong reputation with TUs**





Questions?





Income and investments and post budget analysis

What was in the box?



It certainly wasn't money for local councils....

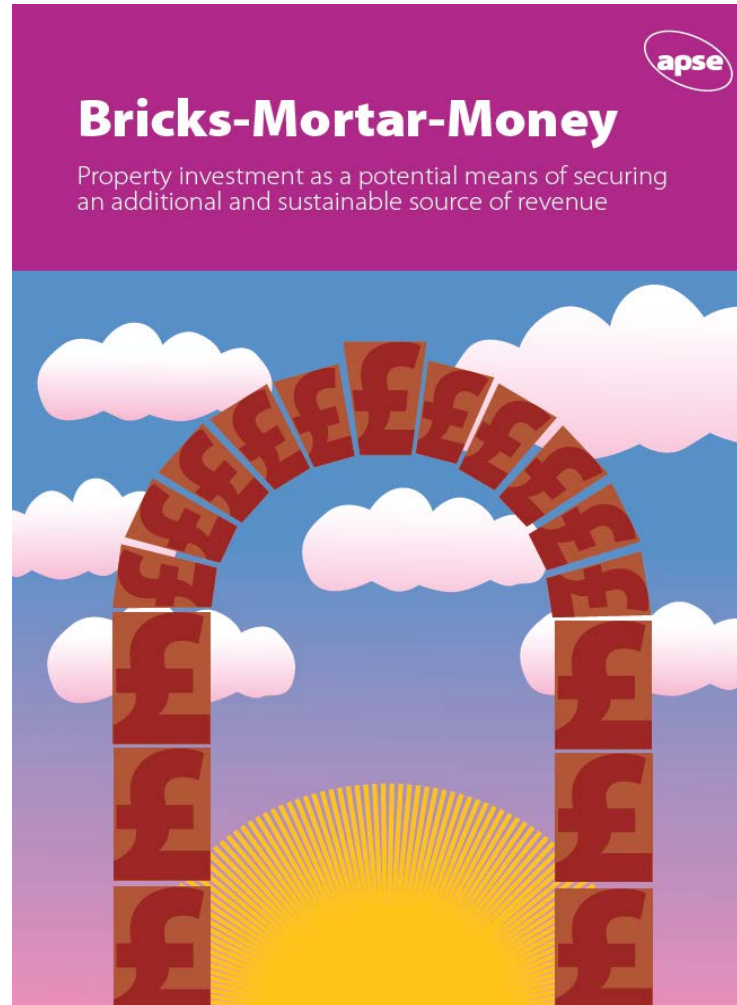


Minor tinkering....



- HRA
- Infrastructure – capital based
- No mention of social care
- Business rate changes – councils ‘will not lose out’

Where are we now on investments ?





Current climate

- Reductions in core funding
- Reliance on income generation
- £2.4bn since 2010 on property investments
- One county on the South of England spent £186m outside of area – or 78% of its investment properties
- Last response from Government on this issue was post the Icelandic Bank crisis



What we found

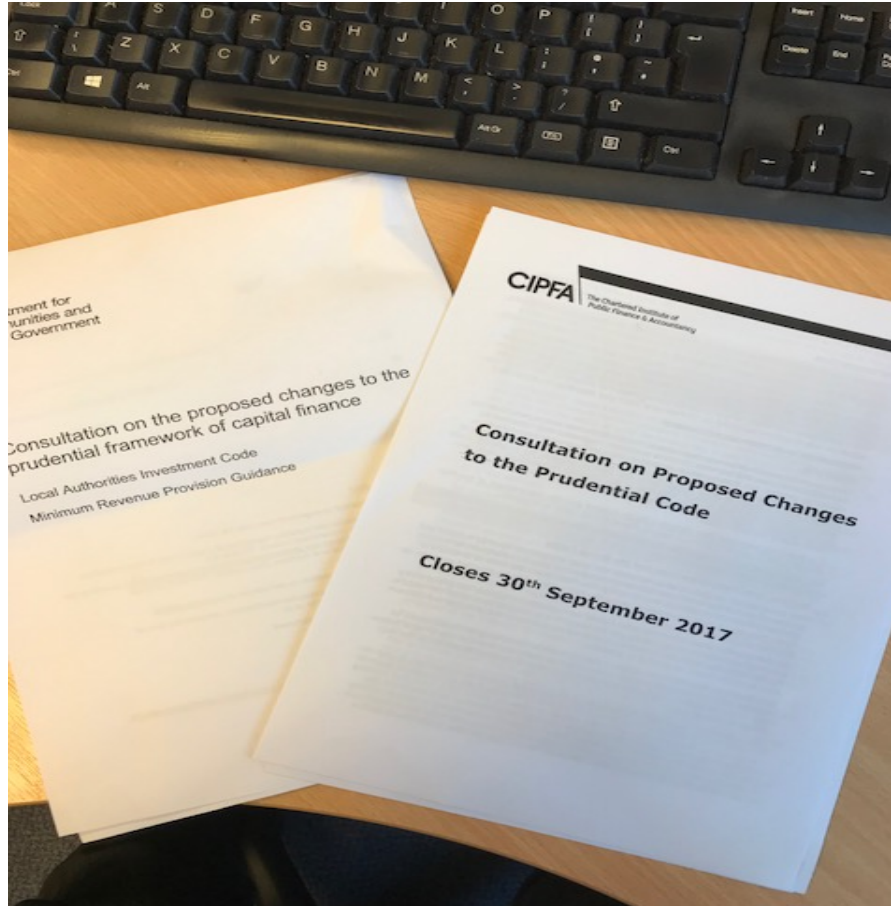
- Type of assets - TNRP (Tenanted non-residential property) eg retail, farms, offices, industrial units
- TNRP non-investment - job creation, sustainable communities, regeneration or development
- Investment properties

Recommendations



- Establish what you have got
- Measure how well you are doing
- Strategy (appetite for risk)
- Geographic boundaries (out of boundary investments)
- Funding (PWLB? Self-funded?)
- Skills and capacity
- Delivery models
- Acquire carefully (risk management)
- Acquisition and management
- Monitor, review, adapt

Spooking the markets....



Changes to the prudential framework on capital finance



- Minimum revenue provision guidance
- Concerns that 'core function is to deliver statutory services' non-core work will soak up resources
- Recognise reliance on commercial activity and investments but could leave councils .. 'exposed to macro-economic trends' creating a 'structural deficit' in funding core services
- 'Borrowing in advance of need' (PWLB out of area investments)
- Non-finance assets should prioritise security and liquidity over yield



Proposed changes

- Minimum Revenue Provision Guidance (MRP) proposed revision to guidance
- Transparency – Investment Strategy to be prepared annually (linked to Capital Strategy)
- Disclosure on proportionality (reliance on commercial income and committed borrowing and impact on ability to deliver services)
- Non-core investment
- Borrowing in advance of need (out of area investments)
- Within area (or commuting distance..) and links to regeneration / local economic activity

A need to be worried?



Facing both ways..





Case study: Southampton

- Borrowing at 2% Return of 6-7%
- £65m investment pot through a development company
Three properties: 2 in and 1 outside of the City
- Investments as of 2016 £100m
- Strategy: to underpin financial security and create an income stream
- Investment business plan: delegation to Head of Property and Assets, Council Leader and capital board

Case study: Mansfield District Council



- Travelodge in Edinburgh, Gym in Manchester, Commercial premises in Doncaster, Commercial Vehicle Garage in Glasgow, Residential property in London
- £26 m pot of which £20 m allocated
- Spread of risk over different sectors and geographic locations
- Reliable rental income and risk analysis paramount
- Matrix of location, tenants, lease, income, sector

Case study: London Borough of Havering (Mercury Land Holdings)



- Powers to on-lend to MLH at commercial rates
- Creates a revenue stream through interest on loans
- Ability to influence the PRS market
- Ability to offer assured tenancies and market rents
- Commercial entity so potential outside of public procurement rules but the council will insist on best value and best practice in its approach

Case study: Canterbury City Council



- Acquisition of Whitefriars shopping centre
- Head lessor with 250 year leasehold
- Asset management sits with Henderson Investments
- Provides a return on both loan interest and rentals
- Council's business case was compelled – and used their knowledge of the strategic value of Whitefriars
- Canterbury's position as a sub-regional retail hub secured with anchor tenants M&S, Primark and Fenwicks

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LOCAL SERVICES

LOCAL SOLUTIONS



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