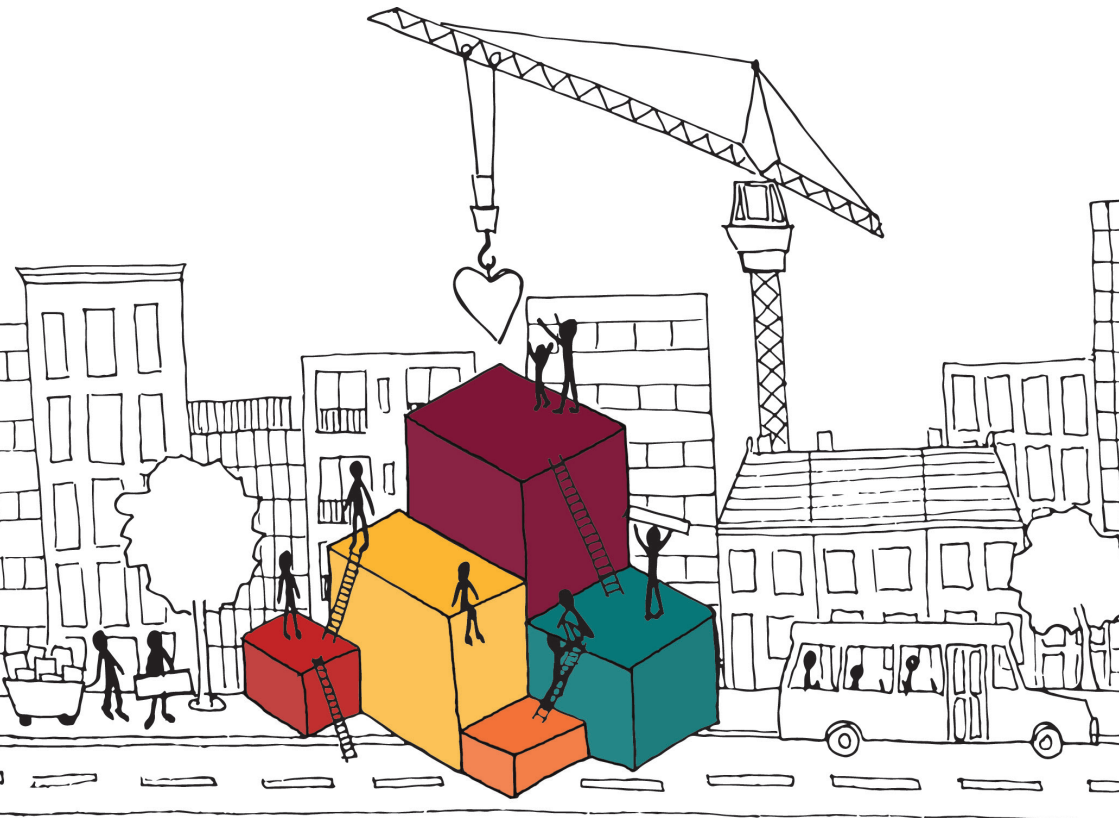


SECURING A RESILIENT FUTURE

CAPITAL SPENDING FOR SOCIAL VALUE



New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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SEPTEMBER 2016

INTRODUCTION

Local government is revenue poor, but capital rich. While revenue budgets have fallen considerably over the past five years, capital spending has actually risen in cash terms. In 2014/15, local authorities in England and Wales spent more than £20bn on capital projects ranging from schools and housing to roads and new public transport links, facilitated in part by historically low borrowing rates.

In the past, capital spending has been seen primarily as a means to achieve social goals, for instance by building new schools or leisure centres to meet local need. While securing social benefits from investment remains critical, councils have shifted decisively into a new mode of thinking about their investments.

This report shows how councils are investing for resilience, analysing their new agenda, setting out leading edge examples and making recommendations to help local authorities maximise the opportunities for creative economic and social investment.

The new agenda for local government capital investment is driven by three key motivations:

- **REVENUE GENERATION:** Councils are increasingly using capital investment to generate revenue or make revenue savings. For instance, government plans to allow 100 per cent business rate retention will mean that investing in the growth of local firms will generate a tax return for the local authority. A handful of smaller councils are planning to use their investment plans to become entirely financially self-sufficient, for instance by building and renting property, investing in renewables and taking stakes in local businesses.
- **INVEST TO SAVE:** Councils can use capital projects to introduce new technologies and redesign services to reduce demand and promote independence. For instance, investments in extra care housing for the elderly can encourage lower need residents to support higher need neighbours, reducing the burden on the public purse.

- **SOCIAL VALUE:** Councils can use capital investment to bring a collective benefit to a community. Social value asks the question: 'If £1 is spent on the delivery of services, can that same £1 be used, to also produce a wider benefit to the community?'¹ For example, investing in a local leisure centre could produce public health benefits or greater social capital in a community. This is a relatively underdeveloped aspect of local capital investment strategies, but it is likely to become more important as councils become ever more ambitious in their investment strategies.

While these three outcomes are starting to become entrenched in commissioning practice by the best local authorities, the transition to investing for greater self-sufficiency is far from complete. It could yet be derailed by a lack of public sector commercial expertise, economic and policy uncertainty, or a handful of high profile poor investments. Social value, in particular, is an underdeveloped part of the commissioning process.

Our research was conducted before the referendum on Britain's membership of the European Union, and it remains to be seen how council investment decisions will be affected by Brexit. In the short term, decisions by the Bank of England suggest that local authorities will continue to benefit from low interest rates, especially as councils can access funding directly from the Treasury. The new government under Theresa May seems likely to relax the previous administration's fiscal targets and has promised an industrial strategy which seems likely to involve continuing capital investment routed through local government.

The danger may not be the supply of finance so much as an economic downturn which damages the property market. Without rental income and rising land values, many councils will find their investments suddenly become a lot riskier. Local government's increasingly commercial outlook is probably here to stay, but it clearly needs to be robust in the face of recessions and it could still be choked off by substantial rate rises.

¹ Social Enterprise UK, *Public Services (Social Value) Act 2012: a brief guide*, available at http://www.socialenterprise.org.uk/uploads/files/2012/03/public_services_act_2012_a_brief_guide_web_version_final.pdf accessed on 22/8/2016

The report concludes by making the following recommendations:

- **Councils should drive towards financial self-sufficiency by maximising the income they get from their investments:** as central government funding falls, councils must make the most of the opportunity afforded by low interest rates.
- **The government should put councils at the heart of its industrial strategy:** central capital spending should continue to be routed through new mayors and combined authorities, ensuring that it is well targeted to unblock and unlock stalled growth projects on the ground.
- **Local investment strategies must balance ambition with prudence:** councils should publish a 25-year forward view of their investment strategies showing how they have managed risk and demonstrating that they not have committed local taxpayers to unacceptably high levels of risky debt. This should include modelling for a post-Brexit downturn.
- **Councils need to invest in commercial expertise:** local authorities need access to high quality commercial skills if they are to make smart investments. This may require a push on training and development of in-house staff as well as schemes to bring in private sector talent.
- **Councils must retain a sharp focus on the public benefit of their investments:** councils need to bring their communities with them by ensuring that their investments deliver tangible economic, social and environmental benefits to communities as well as generating a return to the council. If councils consistently invest for public benefit, then their communities will be left with a useful asset even if the promised financial return does not entirely materialise.
- **Central government must create a stable policy environment for local government borrowing:** the current council finance regime is considerably uncertain, as is the wider policy context in areas such as publicly-funded house building. Ministers must create a stable environment so that councils and their private partners have the confidence to invest their capital reserves to drive growth.

This report is the result of a survey of local government officers, a roundtable event and a series of in-depth case studies which are presented in the appendix. The first section provides a brief overview of the current picture for council capital spending, the second explores current practice, and the final section makes recommendations for change.

1 CURRENT TRENDS IN LOCAL AUTHORITY CAPITAL INVESTMENT

While local government revenue budgets have been in decline, the picture for capital finance is quite different. The relatively healthy outlook for capital spend means that councils have significant opportunities to invest in ways which help to support the sustainability and resilience of communities and public services. In this chapter, we analyse recent trends in local spending.

CAPITAL SPEND HAS RISEN

Council investment spending actually rose by 5.3 per cent between 2010/11 and 2014/15 (see Figure 1), while central grants rose by 0.2 per cent once education is excluded.² This reflects increases in spending through the housing revenue account, increased reinvestment of capital receipts and the investment of spare revenue from elsewhere in the council. The use of prudential borrowing has been somewhat scaled back.

While these relatively healthy capital budgets do offer huge opportunities for local government, it is important to note that spending is not evenly spread. It is clearly a lot easier for councils to make local investments if they have rising land values, a strong local property market and a thriving business base. Without these assets, the revenue costs of servicing borrowing can become much harder to justify. While capital spending has risen as a whole, half of local authorities are actually spending less than five years ago, including three quarters of metropolitan districts.³

This points to the fact that, while many councils will be able to benefit from more imaginative approaches to capital investment, some will not be able to take this approach very far. Councils which have poor balance sheets

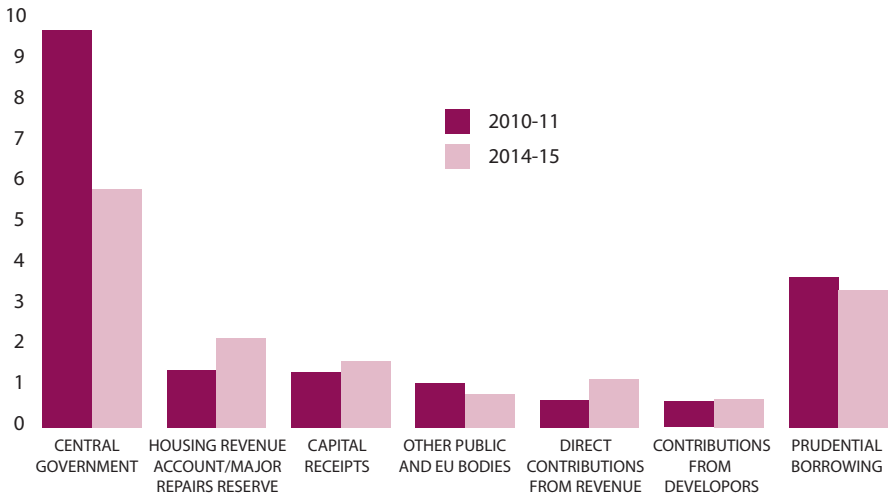
² National Audit Office, *Financial Sustainability of Local Authorities: capital expenditure and resourcing*, June 2016

³ Ibid

or weak local property markets will clearly not be in a strong position to support their public services through smart investment. This is not a reason to step back from the potential of smart capital strategies, but it raises broader questions about how some parts of the country will cope with government's moves towards local financial self-sufficiency.

FIGURE 1 RESOURCES USED TO SUPPORT CAPITAL EXPENDITURE 2014-15

In year spend by source of finance, £bn (2014-15 prices)



COUNCIL CULTURE HAS CHANGED

Austerity has forced a substantial cultural change in council approaches to capital spending. In a survey conducted for this report, 80 per cent of local authorities which responded said that they had adopted a new approach to investment in the past five years. As one respondent told us, in a phrase which resonates across the rest of the survey: “We are increasingly focusing on investment to generate income and developing a property investment strategy.”⁴

⁴ Survey Respondent

This is also reflected in the growth of new commercial posts in local government. A brief survey of recent job advertisements reveals that councils including Sandwell, Oldham and Trafford have all created senior commercial posts. The challenge for local authorities is that they often cannot afford to match the salaries on offer for commercial professionals in the private sector. While a small number of councils have created strategic directorships that include commercial and can command perhaps £130,000, the going rate for directors appears to be closer to £80-100,000.

As well as property, councils are using capital investment to invest in non-tangible assets that will provide revenue returns - mainly investing in bonds, businesses and start-ups. Although this a risky exercise which requires a great deal of capacity and financial literacy around investment cultures, some authorities are taking up this approach. For example Birmingham City Council wishes to invest in a “West Midlands sovereign wealth fund” in order to fund housing and infrastructure across the city-region. It would do this using its £11bn pension fund. In addition the leader raised the prospect of creating “Brummie Bonds” to fund projects. Such pooling of pension funds has been done already by Manchester which is using a £30m pension fund to build hundreds of homes for rent.⁵

As this suggests, the renewed focus on capital investment has sparked an interest in bonds. After several false starts caused by uncertainty over Treasury lending rates, the UK Municipal Bond Agency has emerged as a way for councils to pool and cross-guarantee each other’s debt.

Warrington has blazed a trail by issuing a bond in its own right. The council issued £150m worth of CPI-linked bonds with an interest cap of 3.8 per cent, taking advantage of low rates which allowed them to borrow below Treasury rates, and which helped them to rebalance their debt portfolio with long-term loans. Warrington initially drew down £50m of the money for town centre regeneration, leaving it with £100m to draw on at a later date, or the ability to replay early. The CPI link was created because the council hopes to use the money to invest in assets which generate new NNDR income, which itself rises with inflation.⁶

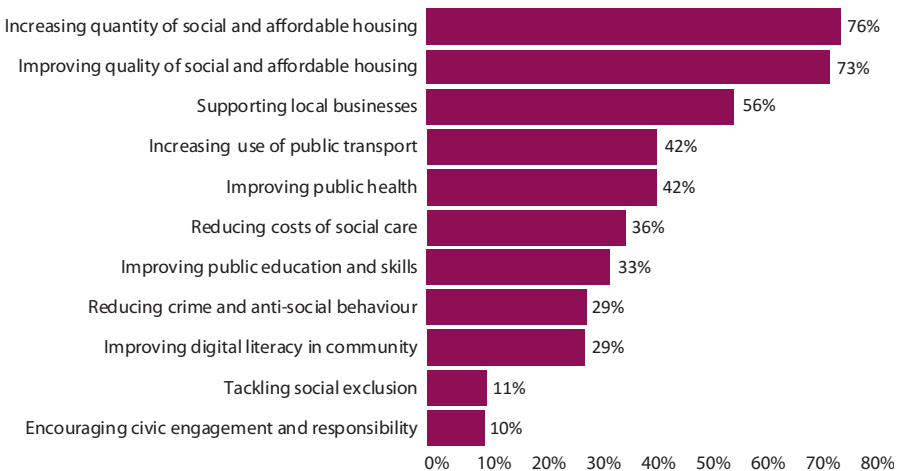
⁵ FT – Birmingham pension funds. <http://www.ft.com/cms/s/0/f9b1ebf6-bb6a-11e5-bf7e-8a339b6f2164.html#axzz46S8SoCZZ>

⁶ Mather, D, ‘Warrington’s Bond Journey’, 2015, available at: <http://www.room151.co.uk/treasury/warringtons-bond-journey/>, accessed on 22/8/2016

COUNCILS ARE INVESTING FOR SOCIAL AS WELL AS ECONOMIC BENEFITS

But while many councils are clearly making commercial investments to drive up income, this is not the whole story. Local authorities clearly recognise that smart capital expenditure can also help to address a host of social challenges (fig 2).

FIGURE 2 TO WHAT EXTENT DO YOU THINK CAPITAL INVESTMENT CAN HELP THE FOLLOWING ISSUES? PER CENT RESPONDED 'DEFINITELY'

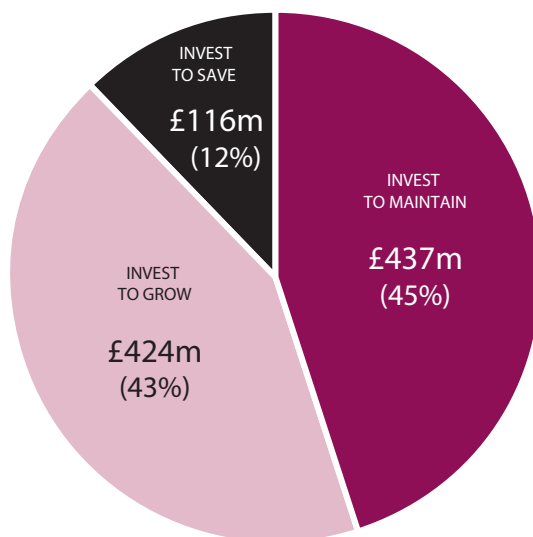


The chart shows 'increasing the quantity of social and affordable housing' and 'improving the quality of social and affordable housing' were by far the most popular choices from those who responded, followed by 'supporting local businesses'. This was also supported in our roundtables where numerous councils across the country reported that they were investing in housing and property acquisition, building leisure centres, re-designing and refurbishing museums and establishing business parks to attract investment. Many of these schemes will generate social value and support demand management irrespective of whether they have been measured.

It is possible that social value and demand management are being under reported. Throughout our research, we noted that councils had completed many projects where social value was not measured, but the nature of the projects could carry inherent social value and reduce demand on services.

Essex County Council's unusually large capital investment programme⁷ (see Figure 3) provides a clear indication of how local government is starting to approach the new environment. The council plans to invest nearly £1bn over three years, divided into three separate strands. The **invest to maintain** programme seeks to extend the life of existing assets, for instance through highways maintenance. **Invest to grow** represents the council's investment in facilitating economic growth, for instance through new school places, more housing and transport links. Finally, the **invest to save** programme is designed to generate savings or income, for instance by building new housing or creating housing for vulnerable people.

FIGURE 3 ECC YEAR PROGRAMME 2016-2019 £M



⁷ Essex County Council, *Revenue Budget 2016/17, Capital Programme 2016/17, Appendix A*, available at https://www.essex.gov.uk/Your-Council/Council-Spending/Documents/Revenue-budget_and_capital_programme.pdf, accessed on 22/8/2016

This emerging picture of councils using their capital spend to deliver entrepreneurial responses to their revenue challenge brings with it some substantial risks. As local government has taken on more borrowing, so it has taken on a substantial burden to service its debt. The picture here is complex. Debt servicing costs have actually fallen since 2010/11, but revenue budgets have fallen faster. This means that the proportion of revenue being spent to service debt has risen. The average single tier or county council spends the equivalent of nearly 10 per cent of its revenue budget on repayments.⁸ Of course, this does not mean that one pound in every 10 of local government spend is literally going on debt: some of that money will be generated from rents, revenues, repayment and capital receipts generated by the council's investment portfolio.

It is also important to note that the growing ambition of local government's capital plans has been driven in large part by historically very low interest rates. These seem set to continue for the foreseeable future. Plans to allow councils to retain 100 per cent of the business rate growth in their area will provide a new opportunity for borrowing, with local government raising money against anticipated future tax income. Handled sensitively, this mechanism could help to promote a virtuous cycle of growth and investment. However, it is clear that any substantial rise in rates – or a recession – would rapidly reduce council willingness to take on debt. Local government is entering a risky period in its financial history and will need to manage these variables carefully.

⁸ NAO, op cit

2 CAPITAL INVESTMENT FOR OUTCOMES

The changing financial landscape has driven councils to look at their capital investment very differently. The wall between capital and revenue has been torn down, and councils are actively looking for ways in which their healthy investment budgets can relieve the pressure on struggling public services. Local government is increasingly seeking to use capital spending to secure three key benefits: income generation, demand management and social value. In this chapter, we show how councils are securing each type of benefit.

COUNCILS ARE INVESTING FOR REVENUE

Councils are increasingly using their investment strategies to generate income which can be used either to service debt or, increasingly, to subsidise the cost of public services.

Perhaps the most ambitious example of this trend is Sevenoaks District Council's (SDC) plan to become financially self-sufficient by generating income from a property portfolio alongside cutting costs and making small increases in council tax. The council has already invested £8m of reserves and approved a further £10m where borrowing from the Public Works Loan Board may be used to finance the scheme. Current investments include a working men's club next to Council-owned housing development land, a petrol station and an office block. The council is investing to meet its economic and social goals by supporting a new hotel in Sevenoaks and developing mixed tenure housing in nearby Swanley.⁹ It has also set up its own Property Investment Company, Quercus7.

SDC's revenue budget is around £13.7m, with no reliance on direct government funding and only £2m is retained from business rates. In 2016/17 the council raised enough money to end its need for revenue support grant and new homes bonus to fund the revenue budget. The

⁹ Unless stated otherwise, case study information was provided by the councils involved.

council hopes to eventually raise enough to take on new services from the county, perhaps including repairing potholes.

Sevenoaks is a fairly affluent part of the country that never received a great deal of government grant in the first place, so while its plans are undoubtedly ambitious, they will be hard to replicate for larger urban and county councils, and districts in areas of lower market demand. Nonetheless, upper tier councils are still pushing towards becoming more financially independent. Housing is generally a key part of these strategies, with many councils setting up companies to deliver new units for market sale or affordable rent. Recent research shows that 23 such companies have been set up since 2014, with investments of about £444m designed to deliver 8,437 homes.

Newham's Red Door Ventures is a particularly ambitious example of this trend. The borough has a unique position in the UK in terms of its economic and geographic context. Economically, the borough is in the overheated housing market of Greater London and is predicted to be one of the fastest growing boroughs in coming years. In addition, its position within London captures the demand which has been generated from the eastward growth of the capital.

Given these pressures, building housing in the borough is a major priority. Red Door Ventures is a housing company that aims to build 550 homes for rent in the first tranche. Newham Council is effectively the bank, and has made available £162m available to Red Door. This will be paid back to the council immediately through interest payments and over the longer term through dividends. The first dividend will be after six years and whilst modest, the capital uplift in the value of homes could generate up to £500m over the next 50 years especially considering the direction of the value of the London property market.

More immediate revenue generation has been made at Telford and Wrekin Borough Council although in a completely different context and on a much smaller scale. The council invested £6m to build a solar farm on the edge of the town of Telford on a greenfield site. The farm generates revenue to the council of around £140,000 per year once all costs are considered. This is made through selling energy to the national grid and this is expected to be

maintained for the next 25 years. The council's measurement of social value was able to be made by translating revenue return into number of hours of social care of 10,000 hours per year.

The best investments are often those which combine public benefit with a financial return to the council. Blaby District Council, for instance, has invested £100,000 in local extra care housing primarily because it fits with the authority's aim of providing good housing for older people, and unlocks funding from central government and local public service partners. But the scheme also opens up the possibility of the council making an excellent return from the extra new homes bonus that comes with the housing. Assuming that current NHB policy holds good, the council could get more than £300,000 back over six years, although the council is very much of the opinion that this is a bonus.

More controversially, a few councils have started making investments outside of their area altogether. Cambridge City Council, for instance, has spent £7m to acquire a retail park on the other side of the county line in Suffolk. The scheme will return almost £500,000 to the council a year, a return of 6 per cent, but it has sparked questions about why the council is using its money to invest in a neighbouring economy¹⁰. While this approach may offer a way for parts of the country with weak property markets to make smart investments in London and the South East, the political questions about the approach are unlikely to go away.

The key challenge with investing outside of a council is likely to be the question of whether the investment addresses wider social needs, either by reducing demand for public services or generating wider forms of value.

COUNCILS ARE INVESTING TO SAVE

Many councils are using their capital investment programmes to generate revenue savings, either by implementing new technology or by developing new initiatives which reduce demand for services over the medium term. Bristol City Council's Extra Care Housing project is a perfect example of thinking about how capital investment can manage down demand. As part

¹⁰ Cambridge News, available at <http://www.cambridge-news.co.uk/cambridge-city-council-spends-7m-buying-b-q/story-28536090-detail/story.html> accessed on 22/8/2016

of its “Better Care Bristol” strategy, the council has been at the forefront of delivering new care developments which provide an alternative to residential care as current models forecast that doing nothing in the context of rising demand will be more expensive.

ECH is focussed around a three tier model of care: supporting people to be independent; emergency intervention and constant support in the form of home care. One officer described it as “home care within a home”. The aims of ECH then are preventing the negative effects of isolation and helping people to maintain independence through re-ablement, from “done-to, to help-to-do”. ECH thus responds to the specific needs of its tenants, instead of a wasteful ‘one size fits all’ approach that would otherwise be the case with a standard care package in a standard care home.

By encouraging residents to live independently instead of moving into a care home, the ECH housing is likely to deliver substantial savings. At any one time, 30-60 per cent of ECH residents would otherwise be in residential care. Each flat is estimated to save £7,100 per flat per annum assuming that tenants would be otherwise in an expensive residential care package. Revenue savings begin to accrue in 2019/20 from which point the investment in ECH is expected to generate revenue savings of £866,000 per year.

Doncaster Borough Council has taken a broader invest-to-save approach through a £50m Investment and Modernisation Fund in 2013/14. Financed through borrowing, the idea is that the fund will pay for itself over time by enabling the council to adopt new, cheaper approaches to delivering its services. By enabling local authorities to bypass the more costly and time-consuming channels for capital borrowing offered by central government, the scheme will not only help the council to meet its budget reduction targets, but also deliver more efficient public services.

One of the main projects in this portfolio was smart lighting. By replacing the existing lamps in each of Doncaster’s 33,000 residential street lights with more energy efficient LED lamps, the council made substantial savings while simultaneously providing better quality lighting for its residents. The lights will also be fitted with telecells that enable dimming control and remote access through an innovative new computer management system,

which prevents wasted energy on streets and sites where additional lighting is not required, in effect providing a hyper-local response to lighting.

According to the council, the need for budget savings was the key driver of the project. They estimate that the new lights will bring total energy consumption down from 10.9 to 2.2m kW/h, generating energy savings of around 80 per cent. They have calculated that lower energy costs alone will cut £857,000 annually from the total energy bill. Further savings will be made from the new computer management system, which will allow the council to tailor their 'dimming and trimming' of the lights to the fluctuations of electricity prices. By automatically identifying defective lights, the computer system will also greatly reduce the cost of employing scouts to manually identify faults and lower the risk of third party claims. At this rate, the project will have paid for itself in six years, after which the council will save £1.3m per year.

Finally, a number of councils are investing their capital in new facilities that reduce public sector overhead. As the public sector shrinks, authorities such as Brent and Newham have decided that it is more cost effective to consolidate their work into a new building, enabling them to shut down and sell off smaller properties around the borough. Some other councils have chosen to retain their existing buildings and rent free space out to organisations from the wider public and voluntary sectors.

Suffolk County Council has been part of a more ambitious scheme to build a new hub at Mildenhall¹¹ to bring together a very wide range of different services. The new complex at Sheldrick Way will bring together the local councils, police, fire, health, leisure, Department of Work and Pensions (DWP), Suffolk West Citizens' Advice Bureau (CAB), and community and education facilities on one site in order to improve public access, service delivery and efficiency. The hub could potentially also host the headquarters for Forest Heath District Council, a base for staff from the county council, all of the town's post-11 education as well as some primary and pre-school provision and leisure and sports facilities.

The project is currently estimated to cost about £38m, but it will deliver

¹¹ Mildenhall Hub, *Update Business Case*, available at <http://mildenhallhub.info/upload/BusinessCase160404.pdf> accessed on 22/8/2016

savings from reduced property costs as well as providing new opportunities for joint working and freeing up land and property for sale or development. The hub is part of the One Public Estate project, which is bringing local and central government together to co-locate public services with the aim of saving £56m by 2020.

COUNCILS ARE BEGINNING TO INVEST FOR SOCIAL OUTCOMES

Finally, many councils are expressing an interest in using their capital investment programmes to drive wider social outcomes. While many capital projects inherently have a long-term social value aspect, in this section we argue that the potential social value of any capital investment project should be explicitly looked at before any investment is made. There are many benefits and opportunities that capital investment can bring to the social sustainability of an area.

There are many examples of social value being incorporated into service contracts associated with capital spending. For instance, Amey's £800m Infrastructure Plus highways deal with Staffordshire County Council sets out to deliver a range of wider social and environmental benefits, including delivering 170 apprenticeships throughout the supply chain and creating self-sustaining groups of volunteers to support the service. But there are fewer examples of councils securing social value through capital investment itself.

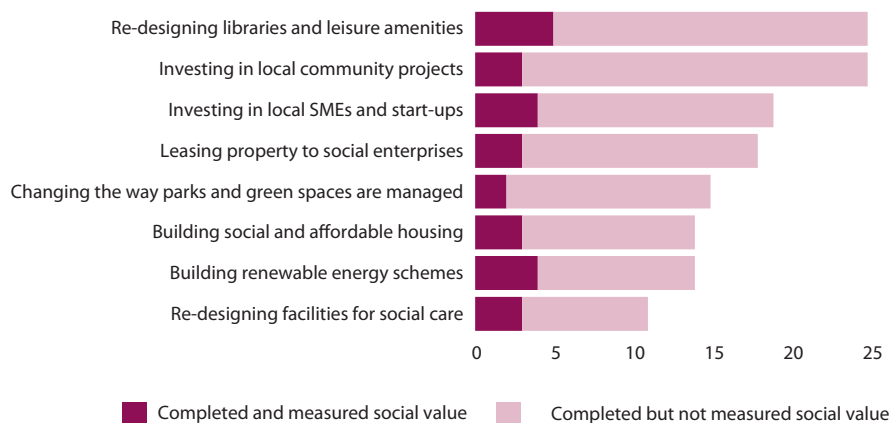
Our survey suggests that this is because of three key barriers to realising value. First, only 18 per cent of our survey respondents felt it was clear what could be classed as social value. Secondly, only 16 per cent felt that they could confidently measure social value and nearly 85 per cent agreed that the availability of data limits what they can measure. Thus the three main barriers to councils measuring social value amongst our respondents are, the **definition** of social value, the **skills and capacity** to measure it, and the **availability of data** to measure it.

Being able to measure impacts is important not only for justifying actions to residents, taxpayers and councillors, but also because it can generate additional investment if shown to have wider financial and social impacts.

Throughout our research it was clear that while most councils acknowledge the benefits of considering social value, this was often an ‘afterthought’ and many councils had not set up projects in a way that meant social value could be measured.

In our survey we asked whether or not social value had been measured in some way (see Figure 4)

FIGURE 4 HAS YOUR COUNCIL IMPLEMENTED PROJECTS LIKE THESE AND MEASURED THEIR SOCIAL VALUE?



One observation from an officer in Cambridgeshire, relating to the impact of investment in their Guided Busway (Appendix 2) encapsulated the challenge. He said that it would be too difficult to look at the impact on levels of deprivation in areas connected to the busway, noting the myriad of other social factors involved and the specific sort of data that would be required for any meaningful assessment.

There are various frameworks that have been developed to measure social value¹². It has been argued before that social value is a continual preoccupation of policy makers, precisely because these ‘soft outcomes’

¹² EUROCADONIA – Briefing for Members, ‘Measuring social value’

are notoriously difficult to quantify and measure especially where the values are non-monetary.¹³

The most commonly used measure of social value is perhaps the Social Return on Investment model, or SROI which has both strengths and challenges. The concept of SROI is simply that we must be able to measure the return on any initial investment in a social or public project. Social Value UK is the new name of the former SROI network and can provide local authorities all they need to know about using the SROI framework¹⁴. The 'social' aspect means that it implicitly looks for returns from wider social value. As such it attempts to quantify returns from outcomes that are often thought to be qualitative.

There are many limitations and barriers to using SROI. Firstly, the way in which SROI is interpreted can vary wildly and lead to fragmentation. Secondly, it is highly resource intensive requiring time and capacity to analyse and understand complex information which may have been captured retrospectively. Thirdly it is often based on assumptions that do not reflect the common realities of many actual situations and processes.¹⁵

¹³ Demos, *Measuring social value: the gap between policy and practice*, available at http://www.demos.co.uk/files/Measuring_social_value_-_web.pdf, accessed on 30/8/2016

¹⁴ Social Value UK, *The SROI Guide*, available at <http://www.socialvalueuk.org/resources/sroi-guide/>, accessed on 30/08/2016

¹⁵ Demos, op cit

CONCLUSION

Despite reducing revenue budgets, the combination of low interest rates and a relatively permissive policy environment for capital spending has created a historic moment in which local government can make substantial investments for the future. Central government has quietly allowed councils to take the initiative in many areas of capital expenditure. The capital side of local government is slowly emerging as a fully-formed new function, and with the right investment in commercial skills it should increasingly take a seat at the top table.

It remains to be seen whether the moment will last. Local government could face some very real limits on its ability to borrow for investment. Higher interest rates or a recession in the property market would undoubtedly limit local ambition. As local government revenue budgets continue to fall, councils will have to carefully consider how much they can afford to spend on servicing debt.

A high profile failure might create political problems for councils: for instance the failure of a major scheme could prompt central government to introduce tougher regulation. The high levels of LOBO borrowing by some authorities have already come in for significant public criticism. And, of course, we must note that commercial investments are easier to make in places with healthy property markets.

This means that councils have to make the most of their moment, locking in the maximum long-term benefit from their capital in a way that manages risk prudently.

We recommend that:

- **Central government should put councils at the heart of its industrial strategy:** councils are demonstrating that they are capable of managing substantial capital programmes, both individually and as part of city region combined authorities. Any industrial strategy should make maximum use of cities and counties to target national

spending in ways that unblock growth-creating projects and support the development of distinctive, specialised regional industries. Continuing to support council capital investment through initiatives such as the regional growth fund will boost growth while also delivering revenue that can support local public services: a win-win for local and central government.

- **Councils should drive towards financial self-sufficiency by maximising the income they get from their investments:** With central government grants due to be all but phased out by 2020, councils will be forced to rely increasingly heavily on local sources of funding. Smart investments, for instance in commercial property, can sometimes generate enough revenue for the council to service its debt and retain a surplus to fund public services, while also having the potential to encourage the growth of local business. At a time when rates are at a historic low, councils should make it a priority to borrow for investment, as long as this investment is profitable, fits within the framework of the council's social goals, and is subject to proper risk management to ensure that the public does not have to bear unsustainable revenue costs to service the debt.
- **Ambitious investment strategies must be balanced by prudence and transparency:** Councils must provide clear assurances to members and residents that they are not accumulating too much risky debt, putting their future revenues at risk for short term gains. CIPFA should encourage councils to publish regularly-updated 25-year investment strategies, setting out their portfolios and risk management strategies and demonstrating why these are robust. Councils must stress test their strategies against the possible impact of recessions in general and Brexit in particular.
- **Councils need to invest in commercial expertise:** Many councils still lack the skills they need to manage a substantial and successful commercial programme. Local government has not historically invested in building these capacities in-house, and councillors are often reluctant to bring in expensive private sector professionals. The LGA, CIPFA and the Cabinet Office should jointly develop a local government 'commercial academy' to radically improve levels of commercial expertise among existing public sector staff. The LGA should support

the creation of a 'Growth for Britain' scheme, modelled on Code for America,¹⁶ which would place mid-career commercial professionals in councils for a year.

- **Councils must retain a sharp focus on the local social value of their investments:** Borrowing to invest inevitably creates some financial risk for local taxpayers, who may be required to foot the bill for repayments in the event that something goes wrong. Prudent borrowing to invest in safe, profitable assets will minimise this risk, but it cannot remove it. Councils must be able to justify their investments in social terms and should increasingly find ways to realise wider social value from capital spend.
- **Central government must create a stable policy environment for local government borrowing:** Ministers must act to ensure that councils can invest against a reasonably predictable backdrop. This means providing clarity over the government's intentions towards council housing companies, reassuring local authorities that housing built for market or affordable sale will not be expropriated. Plans for local business rate retention should include a reset period of no less than a decade, and ideally considerably longer, to ensure that councils can borrow against future income.

It is often noted that councils were investors before they were service providers; it is there in the phrase 'gas and water socialism', coined around the turn of the 20th century to describe a new attitude to cities which was rooted in Joseph Chamberlain's reforms in Birmingham. Municipal powerhouses like the London County Council were able to move into providing services such as healthcare in part because of the income they received from their assets.

The current renewed interest in capital spending should therefore be understood not as a new innovation, but as the possibly temporary rediscovery of local government's roots. The risk is real and must be managed, but if we want to deliver on the government's vision of renewed regional economies, then we need to celebrate and drive forward councils' newfound commercial vigour.

16 <https://www.codeforamerica.org/>

APPENDIX 1: METHODOLOGY

We conducted a literature review to understand the trends and connections between capital investment and social value. From this, we developed an online survey which we sent to Chief Executives, Heads of Finance and Heads of relevant divisions in councils across England. Preliminary results of this survey data were then presented to a roundtable of council officers and councillors from across England to structure the discussion and generate feedback and ideas. Output from the survey data and roundtable discussions also helped to inform the interview questions in our three case study locations.

We chose our three in-depth studies to get as diverse a view as possible across regions, geographies, types and projects. Each of our studies shows the range of possible issues that capital investment can deal with and the different challenges councils can face in different contexts and conditions. This appendix provides greater depth on examples set out briefly earlier in the text.

- **In Bristol**, a unitary can re-design its care offer to provide a cheaper and more tailored response to the demands of an ageing population.
- **In Doncaster**, we look at the role of investing in the latest computer technologies to reduce revenue spending and manage demand in street lighting.
- **In Cambridgeshire**, we looked at how a county develops a crucial growth project over the long-term and manages a complex governance landscape.

APPENDIX 2: CASE STUDIES

BRISTOL CITY COUNCIL

EXTRA CARE HOUSING

Bristol City Council (BCC) is the unitary authority for the City of Bristol with a population of 432,500. It is one of England's eight core cities, and is the largest city in Southwest England. Bristol is generally a prosperous city, with a mixed-economy and good connections to both London, the Midlands, Wales and the Southwest. Like all local authorities, the council faces the pressures of reduced budgets and rising demand on its services as its demographics change.

Bristol's plans for 220 extra care housing (ECH) units is an example of how council capital investment can positively impact on revenue. As part of its Better Care Bristol strategy, the city council has been at the forefront of delivering housing developments which provide an alternative to residential care, as current models forecast that doing nothing in the context of rising demand will be more expensive. The council's ECH development creates immediate revenue savings and reduced demand for wider services, as well as generating significant social value. For these reasons, ECH was "definitely an invest to save" programme according to one officer.

ECH is focussed around a three tier model of care: supporting people to be independent; emergency intervention and constant support in the form of home care. One officer described it as "home care within a home". The aim is to prevent the negative effects of isolation and help people to maintain independence through re-ablement, from "done-to, to help-to-do". ECH thus responds to the specific needs of its tenants, instead of a wasteful 'one size fits all' approach that would otherwise be the case with a standard care package in a standard care home.

Although ECH is delivered in new ways by multiple partners offering flexible services, the heart of the model is good design. The homes do not in any way feel like a care home, but "more like a hotel" and a "home for life".

The developments comprise ground floor homes with front doors, laid out around communal areas, so that it feels more like a small neighbourhood or village. They are also serviced with onsite facilities and common areas such as hairdressers, restaurants and shop. One development in particular, New Fosse Way, is integrated into the wider area, allowing the public to walk through the development's central 'high street'.

The project

BCC will eventually deliver 220 affordable ECH homes in three phases. Phases one and two, namely Coldharbour Lane and New Fosseway respectively, have already delivered 100 ECH homes, with the final 120 as part of phase three. BCC have invested the capital receipt for discounted land values worth nearly £3m and borrowed £1.65m of additional funding. The borrowed £1.65m is the remaining balance of the total £5.5m capital allocation, agreed in 2012, as £3.85m has already been invested into phases one and two of the project. Bristol City Council as the commissioner of the project managed the process using competitive dialogue and best value guidance. As care is a "seller's market", BCC held a competitive procurement process. Investing the necessary time in a competitive dialogue model to get the right contracts and partnership was worthwhile.

In their 2015 report to their Health and Wellbeing board, BCC stated that "by considering Capital and Revenue together, any financial contribution should be considered as an investment to save over many years. To back this up, there is a simple affordability formula to work out the cost reduction of services which offsets any capital investment".

At any one time, 30 to 60 per cent of ECH residents would otherwise be in residential care. ECH is therefore far cheaper. Each flat is estimated to save £7,100 per flat per annum assuming that tenants would be otherwise in an expensive residential care package. Revenue savings begin to accrue in 2019/20 from which point the investment in ECH is expected to generate revenue savings of £866,000 per year.

ECH reduces demand on services in numerous ways. Potential tenants are classified according to need at the outset, from low needs and high

independence, to high needs and low independence. This tailored “gradient package” approach means that resources are not wasted on people who don’t need them. As residents with different packages are mixed in together, a mixed-neighbourhood is created where more independent residents can form bonds and friendships with dependent ones.

In some instances, more able tenants will help less mobile ones to go shopping and get out and about, which not only reduces demand on this being provided by a care package, but also increases the health and confidence of residents which has some financial implications. One officer noted that there has been a reduction in residents attending GPs and hospital visits for minor issues, or indeed for longer term problems which may arise out of social isolation. This can save the NHS hundreds of pounds per day.

Extra care housing is also a way of creating flow in the housing market. The schemes are attractive to higher income groups because they offer a sense of independence and community and don’t feel like a standardised care home. As ECH is an alternative to a care home, certain residents who are put off by standard care homes may opt for ECH. This often frees up large properties in the broader housing market for younger families as many residents of this age are sitting on large properties beyond their needs.

Social Value

It has been widely recognised that ECH is simply a “good thing”, and councillors were very keen for this project to go ahead. For the residents, the choice and quality of life is high and fosters wider well-being both for individuals and the community. New Fosse Way is next to a school and some children walk through the site to get to classes. As a result, there is an opportunity for mixing and integration: students access work placements in the home and the community hall is rented for local events for example. Thus school children and the elderly interact and learn from one another. Most importantly the way in which ECH is integrated in the community reduces the stigma around old age and dispels myths about those who need care.

In addition, at least 80 per cent of ECH staff live locally, helping the local economy and providing opportunities for local people. ECH is unique

in offering an alternative understanding of care, for those who may be considering it as a career path.

Conclusion

A project like ECH is not without risks. There are issues such as the time such a project takes and how changes in health and social care budgets affect the project. There were also worries that no one would come forward as a developer. However, BCC found that with rising demand, there was a greater risk in simply doing nothing. The council had the capital available and it was worth it looking at design and committing to an “invest to save” mentality. Now BCC is a lot less dependent on residential care, and will generate savings which have been locked in through the lifetime of this project, making the council’s finances more resilient along with the residents who opt for ECH living.

DONCASTER BOROUGH COUNCIL

‘SMARTLIGHT’ DONCASTER

The Metropolitan Borough of Doncaster is made up of Doncaster and its neighbouring towns in South Yorkshire, amounting to a total population of around 300,000. Despite considerable economic growth and progress in recent years, Doncaster still struggles with the legacy of industrial decline left behind by the closure of coal mines during the 1970s. The borough has an employment rate below both national and regional averages and a relatively unskilled workforce. These issues are compounded by the growing needs of Doncaster’s ageing population putting further pressure on already strained public services.¹⁷

In the context of fiscal and demand pressure, Doncaster Borough Council announced in 2014 that it needed to cut spending by £109m over the course of three years due to reduced government grants and rising costs. In order to balance the books, the authority has looked carefully at its asset

¹⁷ http://doncaster.opus3.co.uk/ldf/documents/Core_Strategy/Introduction

portfolio. In restructuring many services such as care homes, it has sold around 70 per cent of its property. However the authority has recognised that selling off assets will only get you so far, and this is particularly true in an area like Doncaster, where a land-rich council is constrained by the low market value of property. One officer said: “We weren’t going to hit our target just by disposing of buildings – we needed to generate revenue”.

The DN17 ‘master-plan’ was created by Doncaster Borough Council to ensure that they deliver these savings by 2017. The aim of this framework is to promote “good project management and a collectively driven vision” across a conglomeration of projects intended to either generate income or reduce costs. These projects, ranging from the very small (such as building a salt barn or a tool shed) to the very large (constructing an entire waste transfer station), are closely monitored by the over-arching governance arrangement of the DN17.

In order to provide the capital investment required to fund these projects, the council set up a £50m Investment and Modernisation Fund in 2013/14. Financed through borrowing, the idea is that the Fund will pay for itself over time through the savings or income generated by the projects. By enabling local authorities to bypass the more costly and time-consuming channels for capital borrowing offered by central government, the scheme will not only help the council to meet its budget reduction targets, but also deliver more efficient public services.¹⁸

The Project

‘Smartlight Doncaster’ is an ambitious project spearheaded by Doncaster Borough Council’s Highways Department that aims to completely modernise the borough’s residential street lighting. Approved in June 2014, the project has involved an £8.2m investment in new lighting technology, most of which was funded by an interest-free environmental loan from a not-for-profit company called SALIX. By replacing the existing lamps in each of Doncaster’s 33,000 residential street lights with more energy efficient LED lamps, the council will be able to make substantial savings while

¹⁸ See: Capital Programme 2016-17 to 2019-20, <http://www.doncaster.gov.uk/budget>

simultaneously providing better quality lighting for its residents. The lights will also be fitted with telecells that enable dimming control and remote access through an innovative new computer management system.

Budget savings were the key driver of the project. The council estimates that the new lights will bring total energy consumption down from 10.9 to 2.2m kW/h, generating energy savings of around 80 per cent. They have calculated that lower energy costs alone will cut £857,000 annually from the total energy bill. Further savings will be made from the new computer management system, which will allow the council to tailor their 'dimming and trimming' of the lights to the fluctuations of electricity prices. By automatically identifying defective lights, the computer system will also greatly reduce the cost of employing scouts to manually identify faults and lower the risk of third party claims. At this rate, the project will have paid for itself in six years, after which the council will save £1.3m per year.

The project has alleviated pressure on public services not only by reducing light use, but also by enabling the council to shrink its asset base. The council has used prudential borrowing of over £1m to enhance facilities, security and capacity at their main depot, allowing them to consolidate their operations into two depot sites - one main delivery hub and one more localised hub. The four remaining depot sites were decommissioned and put up for sale, resulting in several hundred thousand per year in revenue savings and enabling the council to acquire some capital receipts. The project has also freed up property for the housing market, with some of the closed depots potentially being converted into residential buildings.

The council takes the social impact of its projects very seriously, noting that the "private sector just do the modelling and go in, but the public sector have to think about equality impact duties a lot more". A number of public consultations were held in order to engage with the local community about the changes, and the council are keeping the public informed on the project as it progresses through a series of weekly tweets.

A concern that emerged from these consultations was the potential negative impact of 'trimming and dimming', and the council has worked closely with the police in order to mitigate this risk. In fact, the new lights are likely to

have a positive impact on local residents, as the much whiter and clearer light given out by LED lamps allow for improved visibility of signs, markings and people on the road, making neighbourhoods safer and reducing the likelihood of accidents. The project will also significantly reduce carbon emissions and pollution in the borough, shrinking the council's carbon footprint by 80 per cent.

The council is also bringing social value to the local community through its unique partnership with HMP Lindholme Prison and One3One Solutions, which has been nominated for two National GO Excellence in Public Procurement Awards (2016/17). After the old lamps are dismantled from their posts they are being shipped to a local prison in Doncaster, where offenders strip them down so that the metal and glass may be recycled. Together with One3One's provision of on-the-job training and qualifications, the scheme offers prisoners the opportunity to expand their skills and prepare for life and work outside the prison. It also helps the council to raise revenue, enabling prisoners to give back to society by contributing to the costs of their rehabilitation as well as victims' services.

Conclusion

Leaders in Doncaster scoped their business plan around a careful assessment of their existing asset base and the risks involved in the project. The council had to consider whether factors such as technological development or electricity price fluctuations could curb the efficiencies and savings they will require to repay their borrowing. In order to moderate these kinds of risks, they stressed that leaders must ensure that effective monitoring arrangements are in place. The DN17 framework has enabled close monitoring of the Smartlight project, which has been guided by nine Key Performance Indicators to ensure that savings are being delivered. They also emphasised the need to think in a sustainable, future-proof way; upgrading to LED lights, which last for 25 years compared to the six years of the old lights, will continue to provide the council with savings well into the future.

At the same time, they also cautioned against being too risk-averse. While a number of local authorities throughout the UK are investing in LED technology, what makes Smartlight Doncaster so unique is the scale of the

project. By November 2016, the council will have renovated the street lights in every residential street in the largest metropolitan borough in the UK, resulting in substantial financial savings, better quality lighting for the local community and a significantly reduced carbon footprint. The advice they have for councils hoping to emulate their success is to “be brave and think big”.

CAMBRIDGESHIRE COUNTY COUNCIL

THE GUIDED BUSWAY

Cambridgeshire County Council covers a large rural area in the East of England dotted with villages, some towns and the city of Cambridge. It contains five districts: Cambridge City Council, South Cambridgeshire District Council, East Cambridgeshire District Council, Huntingdonshire District Council and Fenland District Council. The whole county has a population of 622,200 and covers an area of 1176 square miles.

Much of south and west Cambridgeshire is within the *London – Stansted – Cambridge* growth corridor which is a national growth axis emanating from London to Peterborough. The growth of the county is influenced by both Greater London’s economy and by the City of Cambridge which is one of the fastest growing cities in the UK by both population and GVA growth. Despite this there remain pockets of deprivation, especially in isolated rural areas in the north, and in some urban areas. Thus Cambridgeshire’s challenge is to make sure that infrastructure supports continuing growth whilst recognising that growth across the county is uneven.

The Project

The Cambridgeshire guided busway is the world’s longest guided busway at 16 miles long, and carries 3.8m passengers each year and has been in operation since 2011. Busses run along concrete tracks in rural areas, and come back onto regular roads in urban areas. In the rural areas they run on average at 55mph. This provides a fast, flexible and inexpensive solution to the challenge of joining up the towns and villages which are linked to the wider Cambridge economy, but remain dispersed and spread out across the

county. The busway is therefore an example of strategic, joined-up planning where public transport is integrated into wider growth concerns. As an officer told us it was the “right solution in the right place”.

The busway’s inception came out of the designation of a new town in the county which would need public transport provision in addition to the strategic aim of reducing traffic on the A14. Various alternatives were discussed as reinstating a railway line between Cambridge and St. Ives, which had been taken out of passenger service in the 1970s.

The proposal for the busway was conceived in 2000 based on evidence from the CHUMS study (a multi-modal transport study) which showed the need to both widen the existing A14 between Cambridge and Huntingdon and provide another form of public transport provision. A number of studies showed it would work better as a guided busway as it would be cheaper and provide a more flexible service and locally specific infrastructure than simply re-opening a train line. In towns such as St. Ives and Cambridge, the train stations are far from town centres whereas the buses can come right into the town centres.

The total capital spend for the guided busway was £130 million, funded partly from a Department for Transport (DfT) grant, and prudential borrowing by the council which would be paid back by S106 agreements from developers. The council secured £23m of Section 106 funding for the project in the form of new housing and projected uplift in land values. Together with DfT funding, this brought them up to the £130m they needed – but the project ended up costing slightly more. In operational terms, the busway “washes its own face” and receives no running costs from the council. Two companies currently run services on the busway. An officer stated “To the best of my knowledge there is nowhere else that bus operators pay 100 per cent of the costs of operating and maintaining infrastructure”.

Some 3.8m passengers use the busway per year and a study showed a small reduction in traffic on the by the forecasted 2 per cent. Whilst this may not sound like a lot one must consider the twin factors of increasing car ownership, and the rapid growth of the Cambridge regional economy. Thus, had the busway not been constructed, traffic volumes on the A12 could have been far

greater. As with all reductions in traffic, harmful emissions are also reduced. In the context of a high-growth economy, the busway has helped facilitate the creation of jobs and economic activity in places where there was not much before. It widens the availability of commutable areas, and is attractive for businesses investing in the area. It directly serves both Cambridge Regional College and Cambridge Science Park.

The social value from the busway was harder to quantify than other case studies we had looked at. Partly this reflects the fact that the scheme began before the Social Value Act came in 2012, but also because data capture of social value variables in transport projects is much more tenuous and difficult compared to the Extra Care Housing project in Bristol. Nevertheless, many students are using it to access Cambridge's regional colleges alongside many pensioners using the bus to take day trips to St Ives which has seen benefits to local business in St. Ives and to the wellbeing of pensioners themselves.

Whilst one officer mentioned that it would be difficult to prove that the busway had helped to reduce inequality, there is a case for the busway having the potential to increase mobility amongst those who rely heavily on public transport. No study was done which has yet demonstrated this, but here we see the use of being able to match outcomes to projects in order to validate and justify further expansion of such projects in social value terms. A transport planning survey was carried in 2012 aiming to understand the motivations of people using the busway better and found that passengers were generally more middle-class and that there was also a balance between the sexes in the user demographic.

We also cannot entirely separate social value from demand reduction. Any increase in jobs, housing and environmental quality would be classed as adding social value. But again, as we set out in this report, the methodologies of capturing social value remain wide open to contextual factors.

Evaluation

The busway was undertaken across multiple boroughs which presented a challenging political environment. However the success of the busway has

led to positive outcomes such as better working relations, impact on the area's City Deal, and less risk in any future expansion.

An officer told us that “The busway affects three districts but the only one that was really warm was South Cambridge. They supported for political reasons as it would help promote a new town in the area. The only way we managed to do it was because we had strong political leadership at the time, led by the Conservatives”. They continued “There's a huge gulf between the understanding of county politicians and officers and city district officers on how to deliver really big transport/infrastructure projects. There's still a big gulf – if we had partnered more in the delivery of the project, perhaps this gulf would be smaller”.

However, the process of getting this project off the ground has led to much better working arrangements with the city since the busway and the associated joint local plans were fundamental for the City Deal. As part of the deal are possible expansions of the route: “People now know what a busway is so they're more accepting of it. The concept is established as something that works”.

CITY OF LONDON CORPORATION

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Local government is revenue poor, but capital rich. While revenue budgets have fallen considerably over the past five years, capital spending has actually risen in cash terms. In 2014/15, local authorities in England and Wales spent more than £20bn on capital projects ranging from schools and housing to roads and new public transport links, facilitated in part by historically low borrowing rates.

In the past, capital spending has been seen primarily as a means to achieve social goals, for instance by building new schools or leisure centres to meet local need. While social benefits remain critical, councils have shifted decisively into a new mode of thinking about their investments.

This report shows how councils are investing for resilience, analysing their new agenda, setting out leading edge examples and making recommendations to help local authorities maximise the opportunities for creative economic and social investment.

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