



Committee and Date

Transformation & Improvement Scrutiny
9th September 2024

Council
26th September 2024

Item

Public



Capital Receipts and Income Strip

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Cabinet Member (Portfolio Holder):	Assets – Dean Carroll Highways and Traffic Management – Dan Morris Resources – Gwilym Butler		

1. Synopsis

This report provides an update on the planned pipeline of capital receipts through the year. It includes several individual planned asset sales which are recommended for collective approval, and a proposed ‘income strip’ arrangement to secure additional in-year resources at limited cost to the Council.

2. Executive Summary

- 2.1. Each year the Council brings several of its assets that are surplus to operational needs forward for sale. The income from this process yields capital receipts. These sums can be used to fund capital investment as well as revenue costs which yield a long term financial benefit, such as transformation activities. Average receipts in recent years have been £9m, but the current need is greater than this, as set out in financial reports to Cabinet. This report sets out how it is planned to meet that challenge.
- 2.2. The target level of capital receipts in 2024/25 is £49.8m and the current (Q1) projected shortfall is £32.7m (see Q1 finance report elsewhere on this agenda). Capital receipts can be used by the authority to finance capital expenditure, and, in some cases, revenue costs – where these create transformational change with benefit across several financial years.
- 2.3. The current level of projected capital receipts in the year is £1.2m, with further receipts that may be generated within the year of £17.6m. This could result in a

substantial shortfall against targets, limiting transformational and cost reduction activities.

2.4. It has therefore been proposed that:

- A pipeline of capital receipts is confirmed early in the year to give certainty on resources available to the Council, and
- The development of an 'income strip' option which could yield a substantial receipt through an alternative approach to the treatment of car parks as an asset and surplus income relating to controlled parking. The proposal would continue to ensure that the ringfenced Controlled Parking Account continues to be used to support highways management activity.

2.5. In an income strip model, the Council sells a long leasehold interest, typically for a period of 125 years, while maintaining the freehold. The Council receives a substantial upfront payment and then leases back the properties, making annual lease payments indexed to inflation. The indexation is controlled by a cap and collar mechanism, ensuring increases between 1% and 4% per year. This setup guarantees financial predictability and stability, both for the investor and the Council.

2.6. Crucially, the agreement includes a buy back option at year 50, allowing the Council to repurchase the leasehold interest for a nominal sum of £1. This provision enables the Council to regain full ownership of the car parks, maintaining the flexibility to manage these assets according to future public needs and policy directions.

2.7. Councillors should take note that this report refers to two substantially different transactions, albeit both have the result of securing capital receipts. The capital receipts are being progressed in the usual manner and are a simple sale of surplus assets. In contrast, the Income Strip enables the Council to effectively swap a lump sum receipt in the current year from a third party in return for giving priority access for the that third party to a stream of income in future years backed by the expectation of long term delivery of car parking receipts – it is an 'asset backed' transaction, rather than the offer of car parking income per se. In practice it is similar to borrowing against future receipt of income. A key difference between a capital receipt and the income strip is that the Council will retain operational control and influence over the car parks included in the transaction whereas a capital receipt leads to the full transfer of the asset to a third party.

2.8. Member approval is requested through discussion at Transformation and Improvement Scrutiny Committee and then Full Council. The recommendation to approve the measures set out is based on the fulfilment by officers of the decisions taken by Members in February 2024 at Full Council (including the 2024/25 budget, the MTFs, and the Capital Strategy) together with consideration of the scale of the proposals made. Members should note that the key financial impacts of the decision are the capital receipts outlined plus a £2m recurrent revenue pressure to be applied from April 2025 (see below 5.9 and 5.10). The decision is required in the current year as it supports the funding for the ongoing transformation activities of the Council as we become 'the council we need to be' and develop and implement a new operating model.

2.9. If members are minded to approve both measures, this will be a substantial contribution to securing a greater level of financial resilience and help manage the finances of the Council through the coming years.

2.10. This report sets out

- a. the summarised capital receipts targets from previously approved disposals.
- b. the structure of the income strip and associated risks and benefits
- c. the governance for the income strip decision

2.11. It is also usual for capital asset sales to be brought to Councillors for approval – to avoid a large number of these it is recommended that this report is taken as permission for officers to proceed on the asset sales listed.

2.12. Given the complexity of the income strip proposal it is recommended that the following model for governance is adopted. Officers will need to progress at pace to complete the proposal in a timely way. However, Councillors may direct Officers to cease that work, should it be decided that the proposal is unsuitable. Further discussion of the governance framework is included in the report.

Table 1 - proposed timeline of activity for delivery of the income strip

	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Councillors	Scrutiny – discussion of proposal Full Council – approval for the proposed direction of travel					Inclusion of final contract position in budget papers for 25/26 to Council.	
Officers	Development of detailed plan and soft market testing Procurement route confirmed	Risk and specialist contractual advice, covering both the legal and financial elements of the contract.	Bids received	Legal process		Contract exchange and completion	

2.13. There are several variables to be considered in the income strip proposal at this stage, but sufficient information has been established to enable Councillors to take a reasonable view of the appropriateness, benefits, and risks of the proposals on the income strip. The key elements of the model are set out in this report, and it is recommended that further decisions will be delegated to Executive Directors in consultation with Portfolio Holders to finalise arrangements, as set out in the recommendations below. The key elements to be finalised will be:

- The specific car parks included in the contract (although, as below, it is proposed to include a ‘substitution clause’ such that the precise car parks involved can be varied by agreement of both parties to the contract). As above,

the Council will retain operational control and influence over the car parks – so, for example, the contractor will not be able to impose their own fees unilaterally.

- The duration of the contract (currently anticipated to be based on a break clause at year 50 in a 125 year contract – so a 125 year agreement that both sides assume will cease after 50 years)
- The assumed level of income from the car parks specified through that period (this has been based on a prudent assumption of current receipts only, uprated for 2% inflation in future years; this is prudent because actual inflation is most likely to increase, not decrease, and there are a number of measures under consideration to improve the collection of car parking income, which has not been assumed in this model).
- The schedule of payments to be made to the contractor. This will be based on the assumed income but will be confirmed in the contract. The actual source of the funds paid will not be material to the contractor, so the Council can provide for the cost of the income otherwise lost to the Council through budget growth from 2025/26 as it would ordinarily do through external borrowing. This approach provides the flexibility of generating a significant receipt, at a revenue cost potentially similar to prudential borrowing, but without the restrictions such borrowing would entail on the use of those funds.

3. Recommendations

3.1. That Transformation and Improvement Overview and Scrutiny Committee:

- a. Considers the overall requirement for capital receipts in the current year and the ability to meet that requirement from within existing surplus assets and recommends approval for the proposal within this report, as appropriate, to Full Council.
- b. Considers the mechanism described for the income strip and the opportunity and risk arising from it and recommends as appropriate a course of action to Full Council.

Report

4. Risk Assessment and Opportunities Appraisal

Risks

- 4.1. **Operational Risk:** Changes in demand for parking services could affect revenue.
- **Mitigation:** The Council's retained control over pricing and operations will allow flexibility in managing these risks. Wider financial planning and management will ensure that these risks are managed across the rolling medium-term outlook set out in the MTFs. Further activity is planned to strengthen the income collection function in highways which will improve the robustness of income streams arising. This improvement is not included in the income strip assumptions.
- 4.2. **Strategic Risk:** implications for the economic growth and development aspirations as set out in the Big Town Plan (2018), the Big Town Plan Masterplan Vision (2021), Shrewsbury Moves: Movement and Public Space Strategy (MPSS draft 2024), [Local Transport Plan?], the Shropshire Economic Growth Strategy and Shrewsbury Place Plan. Collectively, the above strategies advocate the future redevelopment of Bridge Street and St Austins car parks (proposed to be included in the income strip model) as part of the 'West End' cultural and learning quarter. Furthermore, the MPSS 10 year vision proposes a review of the parking provision in and around the town centre, as part of an integrated movement and public space strategy. This recommends a phased reduction in surface car parking, to facilitate the above development, and supported by multi-storey provision elsewhere in the town centre and potential, additional short-medium term capacity at Frankwell and Abbey Foregate (also proposed to be included in the income strip model), supplemented by improvements to park and ride/public transport.
- **Mitigation:** identify contractual and financial provisions that ensure the Council can retain and exercise its control over the car parks included in the income strip model; thereby ensuring its ability to facilitate the continued delivery of the economic growth, development, movement and public space aspirations for Shrewsbury and its hinterland.
- 4.3. **Market Risk:** Potential market fluctuations could impact the attractiveness of the leasehold.
- **Mitigation:** Independent valuations and strategic timing will help mitigate this risk.
- 4.4. **Legal and Contractual Risk:** Complexities in lease agreements may pose legal risks.
- **Mitigation:** Comprehensive legal oversight will ensure all agreements are robust and protect the Council's interests. The income strip model is not a novel financial instrument generally nor is it unknown in local government. The proposed model is a relatively simple income strip approach as it does not involve commercial property such as a leisure centre, shopping centre, or office building. These classes of assets will generate higher levels of income and so an income strip will become correspondingly higher risk. Legal risks will be

further mitigated by taking subsequent legal advice when necessary as part of this process, alongside specialist financial advice.

4.5. **Lease Risk:** The Council will enter a long-term arrangement to lease back the real estate assets at an agreed initial annual rental indexed annually by the rate of inflation, capped at a maximum increase of 4% and collared with a minimum increase of 1%.

- **Mitigation:** The long-term lease arrangement (125 years) will include a break clause for year 50. The Council retains the right to receive the full income generated from the real estate in return for paying the contracted annual rental of the head lease. Local government (despite the current financial climate) retains a very high credit rating as an investment partner.

4.6. **Transport Policy Risk:** The coming years are likely to see increased focus on green modes of transport, which may impact on the proposals set out in this report (e.g. in terms of actual car parking revenues).

- **Mitigation:** As future transport policy develops there will be scope to vary the sites included (e.g. through a substitution clause). Despite potential changes, it remains the expectation that cars will be widely used. Investment in park and ride and electric powered alternatives will not be impacted by these proposals. If car parking revenues decline as a result of future policy changes, the council will have the option to pay the contractor using other funds.

Opportunities

4.7. **Immediate Capital Injection:** The sale of surplus assets and the income strip proposals will provide immediate capital receipts in the value of c £50m – more than 5 times the recent average. This in turn will aid the Council's financial management overall. This will help secure the financial survival of the council in the near term and provide longer term confidence in the ongoing profile of car parking assets and their management as part of our approach to highways management.

4.8. **Future Ownership Control:** The £1 buy back option at the end of the contract term allows the Council to reclaim full ownership, providing long-term strategic flexibility. Responsibility for the upkeep of the sites will remain with the Council. There will be scope in the contract to change – by agreement – the sites involved.

4.9. **Stable Revenue Stream:** The income strip payments are offset by the car park revenues which should cover the Council's present and future costs if the Council continues to increase parking charges by inflation, as inflation also affects highways related maintenance and improvement costs, further work to strengthen revenue collection in highways will further improve this position.

Table 2 - risk summary

<i>Risk</i>	<i>Mitigation</i>
Interest rate fluctuation	Under-recognition of the likely income arising thereby including 'headroom' flexibility.
Need to change the composition of the income strip sites	Scope to vary the sites included in the contract.
Future impact of carbon-neutral, public transport, park and ride and similar schemes	Scope to vary sites included in the income strip model.

Car parks not managed effectively as secure and attractive parking venues	Ongoing review and budgetary provision to maintain car parks at a suitable standard. Improved receipts collection. Annual review of car parking charges taking into account inflation and other cost pressures.
Changes in the external property market conditions	Capacity to flex provision of capital receipts and other funding in the year.
Advice is received which recommends not pursuing the contract. This could be legal, financial, or other specialist advice.	The contract is not pursued.
Communications are not effective in presenting the proposals in a balanced way, leading to opposition.	Early planning for appropriate Member and Officer briefings, and communications planning which clearly articulates the rationale for the decision being proposed.
Additional due diligence reveals some proposed car parks are unsuitable while others are more suitable (eg. due to encumbrances and similar obligations)	The final version of the contract includes the most suitable site for this purpose.
Loss of control of the car parks	Long term leasehold ('Asset lock') does not mean that the council will relinquish operational control – the council will retain operational control of the sites in terms of maintenance and determining the charges to be made.
Limit development opportunities/aspirations of the Shrewsbury Big Town Plan, Shrewsbury Moves, and associated strategic context. Retain ability to remove parking from the town centre for development.	Legal structure of the income strip lease to contain provisions allowing future development and/or change of use if possible.

5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for with the Medium-Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve
- scaling down initiatives,
 - changing the scope,
 - delaying implementation, or
 - extending delivery timescales.
- 5.2. The ability to generate capital receipts in the normal course of business is reliant on numerous outcomes being achieved, such as successful planning outcomes being attained on property sold on a "Subject to Planning" basis, which cannot always be guaranteed. In addition, not all purchasers' complete transactions on time or at the levels agreed and, on many occasions, sales need to be re-marketed if an expected purchaser fails to meet that expectation.
- 5.3. An analysis of the current General Fund capital receipts requirements is shown in below at paragraph 5.4. This shows overall commitments of £47.913m and

currently projected receipts of £4.097m. This indicates a likely shortfall of £43.816m.

- 5.4. It should however be noted that the values are estimates as at 30 June and are subject to variation as the year progresses. For example, if schemes in the capital programme encounter delays, as is often the case, the cost of the capital programme in the year will reduce. This often results in a lower capital receipts requirement as well. Additionally, transformation activities currently estimated as costing £23.097m in the current year may be delayed or be secured at a lower cost, also reducing the overall level of commitments. Lastly, every effort is needed to maximise the level of capital receipts generated in the current year as this will enable the planned transformation of council operations to be undertaken more rapidly, yielding budget savings in later years.

Table 3 - capital receipts committed and forecast as at 30 June

General Fund	2024/25	2025/26	2026/27	2027/28
Corporate Resources Allocated in Capital Programme	12,932,250	8,893,385	4,100,000	525,346
Capital Programme Ring-fenced receipt requirements	11,883,333	10,924,907		
Transformation activities	23,097,181	-	-	-
Total Commitments	47,912,764	19,818,292	4,100,000	525,346
Capital Receipts in hand/projected:				
Brought Forward in hand	3,782,496	- 43,815,613	- 63,568,905	- 67,603,905
Generated 2024/25 YTD	260,488	-	-	-
Projected - 'Green'	54,167	65,000	65,000	65,000
Total in hand/projected	4,097,151	- 43,750,613	- 63,503,905	- 67,538,905
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	43,815,613	63,568,905	67,603,905	68,064,251
Further Assets Being Considered for Disposal (Amber/Red)	17,636,305	13,647,440	7,500,750	6,523,050

- 5.5. Clearly, car parking revenues are ringfenced to the Controlled Parking Account. However, the Council will need to replace the funds lost to the service budget as a growth item in future years. The effective transaction is therefore that the budget growth needed will be used to pay the contractor, thereby retaining the CPA ringfence intact.
- 5.6. It may be perceived that the income strip proposal will have the unintended consequence of a reduction in available funding for highways management. This is not correct, as the paragraph above makes clear.
- 5.7. The long leasehold structure, coupled with the £1 buy back option at the end of the agreed term, offers a fiscally responsible approach that balances current financial needs with long-term asset stewardship.
- 5.8. In summary, the financial implications of this report are as follows:

Table 4 - summary of financial implications

Implication	Detail
	£9.3m of surplus asset sales contracts currently being reviewed and finalised by legal teams.

<p>Capital asset sales of £14.9m (excl potentials)- £30.7m (incl potentials)</p>	<p>£5.6m of surplus assets where heads of terms have been agreed with potential buyers. £15.8m of other possible surplus asset disposals under consideration for potential marketing and sales.</p>
<p>Car parks income strip c£34m capital receipt backed by £2.2m of income/ contractor payments each year. Budget adjustment reflects cost of 'borrowing'.</p>	<p>Once a contract is agreed: Capital receipt in the current financial year, approx. £34m. Subsequent years to see payments to the contractor averaging £2.2m per year, backed by car parking receipts at the same value but funded via a budget adjustment also at the same value.</p>

- 5.9. In terms of the MTFS period, the key financial headline is the need for capital receipts of £49.4m - £65.3m in the current year (depending on progress is possible and potential sales). The loss of income received, offsetting contractor payments in all years (additional 'borrowing' costs of £2m per year from next year) equates to £10m to 2029/30.
- 5.10. If Councillors are minded to disallow the proposals in this report, the impact would be to limit possible capital receipts to the surplus asset sales only (£14.9m) and forego the benefit of the income strip, meaning that the capital receipts target in the current year could not be achieved, and that the transformation ambitions of the council would be significantly curtailed. This would, in turn, have a material impact on the financial survival of the Council this year, and therefore sustainability of the council through the MTFS period, negatively impacting the quality of services provided to residents.

6. Communications

- 6.1. It will be necessary to ensure that the proposals recommended in this report are effectively briefed to staff, Members, and residents.
- 6.2. These proposals have a degree of complexity to them and affect assets which are important to residents. An effective approach to communications will help ensure that the correct information is circulated in a timely way and so the discussion of the proposals is well informed. Significantly, it should be made clear that the income strip does not mean that the Council loses control of its car parks – rather that only a sub set of all car parks are affected, and we would retain operational control of them.

7. Climate Change Appraisal

- 7.1. The Council's Financial Strategy supports its strategies for Climate Change and Carbon Reduction in several ways. A specific climate change revenue budget is held. The climate change schemes involving the Council's assets or infrastructure are included within the capital programme. These two areas of expenditure are anticipated to have a positive contribution towards climate change outcomes.

- 7.2. Securing a robust and sustainable financial base will help the Council meet the challenges of climate change – this is not separate to our budget management, but integral to it, as set out in the objectives of The Shropshire Plan and our aim to secure a Healthy Environment.

8. Background and additional information

- 8.1. Shropshire Council's property portfolio plays a vital role in supporting the local economy, tourism, and essential services. As councils across the UK face financial pressures, innovative strategies like the income strip model have become more popular. This model allows councils to unlock immediate capital while retaining long-term control over key assets.
- 8.2. Shropshire Council owns numerous public pay and display car parks, vital for local infrastructure and community services. The Council seeks to optimize these assets' value and utility through innovative financial mechanisms. The income strip model, structured as a 125-year long leasehold with a nominal buy back option at year 50, represents a strategic choice aligned with these objectives.
- 8.3. In an income strip model, the Council sells a long leasehold interest, typically for a period of 125 years, while maintaining the freehold. The Council receives a substantial upfront payment and then leases back the properties, making annual lease payments indexed to inflation. The indexation is controlled by a cap and collar mechanism, ensuring increases between 1% and 4% per year. This setup guarantees financial predictability and stability, both for the investor and the Council.
- 8.4. Crucially, the agreement includes a buy back option at year 50, allowing the Council to repurchase the leasehold interest for a nominal sum of £1. This provision enables the Council to regain full ownership of the car parks, maintaining the flexibility to manage these assets according to future public needs and policy directions.
- 8.5. The proposed income strip transaction aligns with the objectives of the Shropshire Plan, particularly its "Healthy Organisation" objective. The Healthy Organisation principle emphasises the importance of maintaining a resilient, financially stable, and well-managed Council that can effectively serve the community. By adopting the income strip model, the Council can generate immediate capital receipts, which can be utilised in support of the Council's capital programme. . This influx of capital supports the Shropshire Plan's goals by providing the financial resources necessary to invest in projects that enhance community wellbeing and promote sustainable development and to continue the wider transformational activity in council operations.
- 8.6. Furthermore, the model's structure, with controlled annual lease payments and a clear path to regaining full asset control, supports the Healthy Organisation principle by ensuring long-term financial health and asset management flexibility. This approach allows the Council to continue to provide high-quality services and respond to changing community needs without compromising its financial stability. Additionally, by retaining the option to reclaim ownership at year 50, the Council

aligns with the Shropshire Plan's focus on long-term planning and sustainable management of public assets.

- 8.7. The selected car parks are crucial for local infrastructure, supporting economic activity, tourism, and public services. The income strip model enables the Council to unlock immediate capital while ensuring that these vital assets remain under public control. The long-term lease arrangement also guarantees a stable and predictable outflow from lease payments, which will be offset by the revenue generated from the car parks' daily operations.
- 8.8. The Healthy Organisation objective emphasises financial stability, resilience, and the effective management of resources. The controlled annual lease payments and the eventual buy back option ensure that the Council remains financially sound and retains strategic control over the car parks, which are crucial for supporting local businesses, tourism, and public services.
- 8.9. Capital receipts targets for 2024/25 financial year to be met from the sale of property has reached £49.8m which, includes £23.1m contribution towards transformation activities. To ensure targets are met, several Council operated pay and display car parks is being put forward for disposal in an income strip portfolio to raise capital of c.£34m.
- 8.10. Financial analysis suggests that the income strip model offers a better financial outcome compared to outright sales or traditional financing options. By opting for a long leasehold arrangement, the Council avoids the permanent loss of these assets and retains the flexibility to adapt to future needs and opportunities. The nominal £1 buy back option at year 50 is a significant safeguard, ensuring that the Council can resume full ownership and potentially reconfigure the use of these assets in line with evolving community needs.
- 8.11. The proposed income strip transaction offers a balanced approach to meeting immediate financial needs while securing long-term strategic and operational control over key public assets. The Council's ability to repurchase the assets for a nominal sum at year 50 further enhances the attractiveness of this model, ensuring that the Council can continue to manage these important assets in the public interest. The recommendations in this report support the Council's goals of maintaining a Healthy Organisation and ensuring a sustainable and prosperous future for the community.

9. Additional Information

Governance considerations

- 9.1. This report covers a larger scale of capital receipts than has usually been the case. It also considers the governance requirements (below) for these decisions, in particular the 'income strip' proposal. The income strip is unusually complex as it combines revenue budget income receivable and sale (or long term lease) of capital assets. These points are set out below in more detail.

Capital receipts

- 9.2. It is usual for the Council to require the generation of capital as part of the funding for its capital programme. As has been reported quarterly to council for many years, the average level of capital receipts generated annually is £9m. Over the last 7 years, this has avoided the need to borrow externally to the value of £42m. This saving the council c£0.8m per year in financing costs, which are charged to revenue.
- 9.3. Capital receipts are one form of capital finance available to the council. Others include capital grants, external borrowing, and developer contributions (e.g. Community Infrastructure Levy and s106 contributions). Of these various sources of finance, capital receipts are the most flexible – they can be used for capital schemes but can also be used to fund the one-off costs of transformation activity, where the benefit is accrued across several future years. This scope also extends to the majority of redundancy costs.
- 9.4. The current requirement for capital receipts is higher than usual, as the costs of transformation need to be met to secure a sustainable financial basis for the Council in the future. These transformation costs include asset rationalisation, improved systems and processes, and reduced staffing including redundancy and consultancy costs required to achieve transformation targets.
- 9.5. Capital receipts therefore help the Council to meet the one-off costs of significant changes. Approval for capital receipts is required from Cabinet under the Constitution of the Council (financial rules, C3.38 refers¹).

Car parking income

- 9.6. Receipts from sales of car parking tickets, and, where applicable, Fixed Penalty Notices ('FPNs'), are governed by caselaw and national legislation including the Road Traffic Regulation Act 1984 and the Traffic Management Act 2004(– for FPNs).
- 9.7. At present, the income secured from car parking arrangements is retained by the Council and is administered by officers within the Highways team.
- 9.8. Financial planning for car parking income is undertaken each year, with consideration given to the traffic management requirements of the area and the levying of fees and charges arising from that. Anticipated receipts are then used within the highways management budgets. Approval for both Fees and Charges and the revenue budget proposals is provided by Full Council each year, in line with financial rules 4.1.2-3.

Income strip

- 9.9. The income strip proposal includes both car parking income and capital receipts, as follows:
- Anticipated car parking receipts are included the income strip contract as an annual payment to be made to the income strip contractor.
 - From the point of view of the contractor, the income need not come from car parking activity, so long as it is received. It is understood, and included in the

¹ [appendix-1-financial-rules-feb-19.pdf \(shropshire.gov.uk\)](#), appendix F, p81.

contract, that the receipt will come from a specified group of car parking assets. That list can, by agreement, be varied through the course of the contract. The total level of income could also be varied, again, by agreement. The contract is structured, however, to a predictable level of income for the contractor, based on a reasonable estimate of future car parking income to the council, to minimise variation, risk, and so to avoid excessive cost to the council and maximise the benefit.

- Car parking will remain the statutory responsibility of the Council (not the contractor). Maintenance of car parking sites will similarly remain with the Council.
- Application of the receipts within the highways budget will continue to be made, and future years budgets will require an additional investment to ensure this. Effectively, the budget growth used to offset the income strip payments to the contract will be funded in future years via council base budgets, thus maintaining the ring-fenced nature of the income.
- From the point of view of the Council, highways services will receive an annual level of growth to offset the loss of income arising from the income strip (in effect, a pass through of payments to enable the contract to be agreed, while still maintaining the ring fence around car parking incomes).
- In return for contractual guarantees of future payments equating to the income received from the car parks, the income strip contractor will pay the Council up front for the estimated present value of those future receipts.
 - Receipt of c£34m in one transaction will then equate, effectively, to a capital receipt for the Council. This ensures that the Council meets the current enhanced requirement for capital receipts and enables funding of transformational costs including staffing restructure.
 - This receipt can be held and drawn down as necessary in the coming years.
 - The legal form of the income strip contract will be a long-term leasehold, as the car parks themselves are not being disposed of, rather an agreement is being made about the ownership of future capital receipts. The Income strip contract provides for the assets to be returned to the council at the end of the contract for £1.
 - From the point of view of the council, this is therefore a form of borrowing against known long term revenues to mitigate a problem in the immediate term. The cost of the borrowing is paid each year and can be factored into the revenue budget, as noted above. However, this is not a formal asset disposal, as the assets are not being sold, merely included in a long-term lease. But for the purposes of the accounts, this transaction must be considered in terms of the substantive effect of the contract, not the legal form of it. For the purposes of the governance and the decision, this is therefore treated as a form of capital receipt.
 - Financial rules require approval for individual disposals, notwithstanding the absence of a formal disposal taking place.
 - It would not be usual to seek permission from Councillors for borrowing, as this is a delegation direct to the s151/CFO under financial rules (see C.7.4).

10. Conclusions

- 10.1. The Council has successfully generated Capital Receipts for many years, thereby reducing the need to take further external borrowing. However, the current need to transform Council services urgently as part of wider efficiency measures requires a higher level of capital receipts than has been achieved previously.

10.2. This report sets out how that higher level of capital receipts can be achieved, the proposals for achieving that, and the governance requirements for that to be enacted.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Local Member:

Appendices

Appendix 1 – summary of capital receipts including income strip proposal

Appendix 1 – summary of capital receipts including income strip proposal

		Capital Receipts 2024/25		
Projections as at	31 July 2024	RAG	Comments	
Total Commitments	£ 49,824,365			
Brought Forward in Hand	£ 3,782,496			
Completed YTD	£ 601,464			
Required as at end of July 2024	£ 45,440,405			
<i>Potential PWLB Borrowing to replace Cap Receipts</i>	£ 12,932,250	<i>To be decided</i>		
Exchanged or in Legals	£ 9,361,711			Subject to Planning (CDL)
Required if all sales above complete	£ 36,078,694			
Agreed Terms HoT	£ 5,560,000			
Other Possible Disposals	£ 15,874,630			
Extraordinary Disposals				
Car Park Disposal	£ 34,500,000			Subject to Cabinet, Council and EMT
Possible Outcomes				
100% Success achievement	-£ 19,855,936			
<i>Possible Over achievement</i>	-£ 3,981,306			
<i>Likely achievement</i>	£ 1,578,694			
Total Possible Disposals 2024/25	£ 65,296,341			
Total Projected Disposals 2024/25	£ 49,421,711			
Total Likely Disposals 2024/25	£ 43,861,711			Achieves remaining target Minimum Requirement