



Department for  
Communities and  
Local Government

# Transformation Challenge Award and Capital Receipt Flexibility 2014-2016 Prospectus

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# Contents

**Foreword** Brandon Lewis MP

**Chapter 1** Aims of the Transformation Challenge Award

**Chapter 2** Transformation Challenge Award 2014-15

**Chapter 3** Transformation Challenge Award 2015-16 including capital receipt flexibility 2015-16 and 2016-17

**Annex A** Timetable for Transformation Challenge Award 2015-16 and capital receipt flexibility

**Annex B** Frequently asked questions

**Annex C** Supplied as a separate attachment:  
2014-15: Transformation Challenge Award bid application forms

- 2014 - 15 application form A
- 2014 - 15 application form B

**Annex D** Supplied as a separate attachment:  
2015-16: Transformation Challenge Award application form and expression of interest form

- 2015 - 16 application form A
- 2015 - 16 Expression of Interest form B

**Annex E** Example of a determination letter for flexible use of capital receipts

**Annex F** Supplied as a separate attachment:  
Transformation Bid Calculator

**Annex G** User Guidance: Completing the Transformation Challenge Award  
Financial Case Bid Calculator

# Foreword: Brandon Lewis MP

Public services should work for the people who rely on them. Too often people get passed from pillar to post rather than having their problems solved first time round. They have to waste time and energy trying to track the right person down, forced to tell their story over and over again, simply because services are not joined up as well as they should be. This can be incredibly frustrating.

We know we need to significantly improve the way that public services are commissioned, managed and delivered. This means making better use of assets and expertise so that they are focussed on the interests of the people they serve. Fundamentally that means anything and everything from sharing management and back office teams to co-locating services and being more open with data.

We strongly believe that local authorities are best placed to lead this transformation, an approach which has been proven by initiatives such as the Community Budgets pilots and the ground breaking and extremely successful troubled families programme. That is also why we have asked them to work with health services to overhaul the way services work for the elderly, jointly deciding how best to spend the Better Care Fund.

However, at a time when councils account for a quarter of all public spending it is vital they continue to play their part tackling the inherited budget deficit by making all of the 50 sensible savings we recommend, such as better procurement, greater transparency, using reserves more creatively and sharing back offices.

Many councils are already thinking about how to do this, but could do with some impetus from us to help them go further and faster sooner.

That's why we've set up the Transformation Challenge Award: to reward plans to improve services for people and to support imaginative ideas that will have a significant impact.

There is £320 million available in the next two years: some of it specifically set aside for the smallest authorities who can sometimes face the biggest hurdles to starting change. This money means that councils and their partners can now set about to be ambitious in their plans to transform their services through greater sharing and efficiency.

I look forward to seeing some exciting and innovative proposals which will make a genuine and lasting difference.

# Chapter 1. Aims of the Transformation Challenge Award

## The scheme

Local government has gone a long way to improve services and drive down costs, sharing back offices, frontline services and working with other parts of the public sector. However, there is more to be done. This funding is available to support English local authorities transform their operation, make changes to their business processes and work with the wider public sector to improve services for local people.

## Business re-engineering

We want to see councils re-engineer their business processes through sharing all or some of their corporate services, workforces, information technology systems and assets. It could involve two or more districts working together or districts working with their county council. It could involve all of their services, or a number of them. Schemes will be different, reflecting the different needs and situations of the authorities involved.

## Service re-design

Building on the success of the Community Budget Pilots, we also want this funding to encourage and support places to re-design the way that services are delivered, both within councils and across local public services and the voluntary and community sector, to deliver better outcomes for citizens.

Many authorities are already working with communities and the voluntary sector to radically change commissioning models. They are bringing together the expertise and resources of the authority, with the assets and skills of the community, to develop sustainable models to achieve better outcomes for less money. We are interested in supporting transformative projects in this vein.

This prospectus sets out for 2014-15 (chapter 2); and 2015-16 (chapter 3):

- The eligibility of those who may bid;
- The format in which expressions of interest, bids, and business cases should be submitted and the deadline;
- The criteria on which bids will be evaluated; and
- The process for allocating the funding.

If you have any questions about the Transformation Challenge Award, please contact [transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk).

# Chapter 2. Transformation Challenge Award 2014-15

There is £15 million funding available for 2014-15. The funding in 2014-15 will be divided between:

- A. Facilitating small district councils to share a senior management team, including any chief executive, with one or more other councils; and
- B. Supporting a small number of places which, by working with other public sector partners, can utilise funds in 2014-15 to reform services and make a return in 2014-15.

## **A. Facilitating small district councils to share a senior management team, including any chief executive, with one or more other councils**

### **Re-engineering council business**

The government expects local authorities to re-engineer how they deliver services, coming together to share their operations both across frontline service delivery and back office<sup>1</sup>. Such combining of operations, including as appropriate with other public and private sector service providers, can: minimise overheads; enhance the resilience of local service delivery to respond to changing and unexpected circumstances; and increase the capacity of local authorities to handle diminishing resources and more diverse demands for local services.

All this is particularly the case with the smallest local authorities, which individually can have disproportionately high overheads with limited resources, restricting their resilience and capacity for local service delivery. Therefore, the government believes that business re-engineering should be a particular priority for these smallest local authorities and accordingly is making this the focus of the 2014-15 Transformation Challenge Award funding.

### **Small councils – their future operation**

Whilst there is no single or generally accepted definition of what are considered in England to be the smallest local authorities, for the purpose of this award we have focussed on those with a spending power of £15 million or less. See revenue spending power table, which can be accessed via:

<https://www.gov.uk/government/publications/change-in-spending-power>

The government expects small councils to continue to consider its overheads by, for example, no longer having its own senior management team and workforce, but to

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<sup>1</sup> Government's response to the Heseltine review: Cm 8587: March 2013

share a senior team with one or more other local authorities and have a shared or contracted out workforce.

Whilst business re-engineering should be a priority for these councils, it is equally important that their particular strengths are preserved. These strengths are that such councils should give recognition to the identities of many of our most local, historic, and vibrant communities, and enable individual localities to have real influence over their future and the local public services they receive. Accordingly, each such local authority, whilst no longer having its own individual operational structures and processes, should continue with its own representational structures and democratic processes, maintaining its identity for the benefit of the communities it serves.

Perhaps the simplest form of combining operations is for two or more similar councils to share all aspects of their operations. Other forms of combination could include sharing some aspects of its operations with the county council, or having workforce or information technology provided by a separate entity, such as a private body or mutual serving several councils. Examples of different ways in which district councils are already combining operations are described below.

**High Peak and Staffordshire Moorlands** councils' partnership has been developed across county borders and between two councils with different political control. They have a joint chief executive, joint management structure and well-developed shared service programme. The two councils have saved £3.2 million over five years through sharing and have seen a number of other benefits such as improved performance and increased capacity and skills base. Transformation Challenge Award funding of £200,000 has enabled the extension of shared service arrangements to other areas including: asset management; growth and regeneration; and sharing with other partners (including county councils, the Peak District National Park, and town and parish councils).

**Vale of White Horse and South Oxfordshire** district councils share a senior management team and a chief executive and various back office services. They are now moving forward to take the re-engineering of their processes further with a multi-tier public sector and third sector services 'one stop shop' in partnership with the county council. They are receiving Transformation Challenge Award 2013-14 funding to achieve this. The councils propose to significantly reduce their aggregate back office accommodation cost to the public purse by rationalising their building assets. They plan to improve service delivery by creating a single reception for walk-in customers, providing information and resolution of enquiries for all three tiers' services, in a seamless way.

It is, of course, for each council to decide whether to embark on such a combining of its operations and if so to decide with partners the precise model that is most appropriate for it. However, the government is clear that if any small district council does not continue to consider such a comprehensive combining of operations, it is risking the quality and sustainability of the local public services for which it is responsible and giving poor value for its local taxpayers and electors to whom it will be accountable at the ballot box.

### **2014-15 Transformation Challenge Award funding**

The government recognises that a comprehensive combining of operations may take time to achieve, possibly involving such processes as the Transfer of Undertakings Protection of Employment transfer of staff, asset sales, and necessitating the building of trust and commitment between partners. However, the government believes that a significant first step to delivering such a comprehensive combining of operations can often be a council deciding to share a senior management team including any chief executive with one or more other councils.

Accordingly, the government proposes to use a proportion of the £15 million available funding in 2014-15 to facilitate district councils, with revenue spending power in 2014-15 of £15 million or less to make a move towards shared corporate overheads.

Any such district council which wishes to make such a move can bid for 2014-15 funding of up to **£400,000** to help with transitional costs for two authorities sharing, including where a district joins with a county council. Where there are more than two partners to the arrangement and therefore greater transitional cost, consideration will be given to raising the £400,000 limit if the savings outweigh the grant.

We know that there can be barriers to sharing and we will be working with the sector to help overcome these barriers. Where councils decide to pursue this then the Local Government Association has agreed to field their advisors to assist authorities in their efforts. Authorities who have already been through this change programme are also willing to provide advice and assistance. Department for Communities and Local Government staff will also be on-hand. Ministers have offered their time to engage with local Leaders. We will be contacting authorities before the bidding deadline to offer assistance.

Finally, the government recognises that there may be a number of small district councils, some of which may already have moved to a shared senior team, which wish to embark on other aspects of combining their operations with other councils and partners. It will be open to them to bid for 2015-16 funding to contribute to the costs of such changes (see chapter 3).



**How to submit a bid for Element A of 2014-15 fund:** Facilitating small district councils to share a senior management team, including any chief executive, with one or more other councils

### **Eligibility**

Those eligible are authorities that do not share a senior management team including any chief executive and a spending power of £15 million or below, as shown in column BG of the revenue spending power table, which can be accessed via:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277395/Spending\\_Power\\_2014-15\\_supporting\\_information\\_final\\_settlement.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277395/Spending_Power_2014-15_supporting_information_final_settlement.xls)

### **Bidding and deadline**

Bids to the fund should be submitted on the prescribed application form. All partners to the application should sign the application. Political agreement from each of the participating authorities must be secured and demonstrated, to accompany the bid.

Bids should be submitted using **Form A at Annex C**.

Bids should be received **no later than 5pm on 1 July 2014**.

Completed bid forms, approved and signed by the Section 151 officer for each partner authority, should be returned in electronic format to:

[transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk)

### **Criteria**

Authorities must be able to demonstrate that they will move to a shared senior management team including any chief executive within 2014-15.

### **Evaluation**

When evaluating and comparing the bids from authorities wishing to share a senior management team, including any chief executive in 2014-15, the department will take into consideration the following:

- a) The scale of the partnership: the number of partners; and if other services will be shared;
- b) Clear plans for moving to wider shared service arrangements in 2015-16; and
- c) The savings generated.

### **Process of allocating funds**

We will use the criteria set out above but final funding decisions are a matter for Ministers and there is no guarantee of funding.

Awards will be made only where the Secretary of State is satisfied that in his opinion the proposal meets the criteria. If for each category of award, the bids meriting support exceed the available resources, decisions on both which bids to select and the amount of any award will be made having regard to the extent to which the bids demonstrate the criteria.

**B. Supporting a small number of places which, by working with other public sector partners, can utilise funds in 2014-15 to reform services and make a return in 2014-15.**

**Collaboration**

The Government wants to see public sector partners, working with citizens, re-design and deliver services around the people who use them and not around organisations or structures.

**Essex Police** deal with an average of around 80 domestic incidents per day. Previously, victims looking for support had a confusing array of services to choose from, with in excess of 80 agencies offering support in more than 1,000 locations and over 116 phone lines. A pilot in Basildon and Braintree, which saw agencies adopt a single strategy, has helped an additional 359 victims of domestic abuse stay free of violence. The success of the work means partners are now keen to invest to take the approach county-wide, with projected benefits of more than £9 million over six years.

**West Cheshire's Integrated Early Support** is designed to help children and young people with multiple needs, troubled families and tackle domestic abuse in a joined-up way. The aim is to improve outcomes by intervening before people's problems escalate to crisis point. This brings together a range of different organisations under one roof and one management structure. Practitioners are already reporting that improved access to multi-agency information is helping them make better decisions quicker.

We propose to set aside a portion of the £15 million funding in 2014-15 for these types of projects which are 'ready to go' and can utilise funds in 2014-15 and make a return in 2014-15. The funding will be to part-fund these projects. These projects are also likely to lead to bigger change by attracting more public and private partners.

**How to submit a bid for Element B of 2014-15 fund:** Supporting a small number of places which, by working with other public sector partners, can utilise funds in 2014-15 to reform services and make a return in 2014-15.

**Eligibility**

All authorities are eligible if they have an existing partnership project that requires funding to move forward and can utilise funds in 2014-15 and make a return in 2014-15.

**Bidding and deadline**

Eligible authorities should provide a bid which includes:

- a) A full description of the project, including details of timing and implementation. This should also indicate whether the proposal is being developed alongside, or as part of, any wider public service reforms, including those supported by the Public Service Transformation Network or other government department transformation funding;

### **Bidding and deadline (continued)**

- b) A business case for the proposed project, with information on the purpose of the proposal, its expected costs, benefits and savings (including how the proposal offers value for money and fits with local savings plans) and how risks will be managed; and
- c) The amount of funding sought.

Bids should be submitted using **form B at Annex C**.

Bids should be received **no later than 5pm on 1 July**.

Political agreement from each of the participating authorities must be secured and demonstrated, to accompany the bid. Completed bid forms, approved and signed by the Section 151 officer of each local authority partner and authorised person for other partners, should be returned in electronic format to:

[transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk)

### **Criteria**

All bids must meet the following criteria:

- a) Savings must exceed the amount of grant sought.
- b) Funding can be utilised in 2014-15 and returns on this investment be demonstrated in 2014-15;
- c) The Transformation Challenge Award grant is to part-fund a transformation project;
- d) The bid must have a positive impact on service users;
- e) As a minimum, applicants must be in an existing partnership with at least one other partner. This could be another local authority, public authority, the Voluntary and Community Sector or a private sector partner; and
- f) The proposal has been signed off by your Section 151 officer.

### **Evaluation**

When evaluating and comparing the business case for 'ready to go' projects the department will take into consideration the number and nature of proposals received (including the scale of combination of partners and the level of expected costs, benefits and savings of each proposal). Regard will also be had to whether the proposal is part of, or potentially connected to, any wider public service reform involving other public and private sector service providers.

### **Process of allocating funds**

We will use the criteria set out above but final funding decisions are a matter for Ministers and there is no guarantee of funding.

Awards will be made only where the Secretary of State is satisfied that in his opinion, the proposal meets the criteria. If for each category of award the bids meriting support exceed the available resources, decisions on both which bids to select and the amount of any award will be made having regard to the extent to which the bids demonstrate the criteria.

In situations where places have worked up robust proposals that are focused on service transformation, as part of the wider growth deal initiatives, Ministers may consider announcing some of the Transformation Challenge Award funding as part of the Growth Deals announcement.

# Chapter 3. Transformation Challenge Award 2015-16 and Capital Receipt Flexibility

There is £305 million funding available for 2015-16, comprising £105 million revenue grant and £200 million flexible use of capital receipts, to support proposals to re-engineer business processes and re-design services. The fund will have 2 elements:

- A. Encouraging authorities which already share a senior management team and any chief executive to go further with their plans to re-design their services; and
  - B. Encouraging places that have ambitious plans to work in partnership across the public sector and with the voluntary and community sector or the private sector to re-design services.
- A. Encouraging authorities which already share a senior management team and any chief executive to go further with their plans to re-design their services**

The Transformation Challenge Award 2013-14 attracted 145 bids and we have funded 31 of them. Some of these bids included authorities which were already sharing a senior management team and a chief executive and wanted to go further with their plans. For example, the Transformation Challenge Award 2013-14 funded Cherwell and South Northamptonshire district councils to extend their sharing to a third partner, Stratford-on-Avon. Last year's Transformation Challenge Award also supported High Peak and Staffordshire Moorlands to extend the range of services they share.

We want to continue to incentivise these types of transformation plans and propose to offer these authorities the opportunity to bid for 2015-16 funding. We will not limit funding for these bids to £400,000.

**How to submit a bid for Element A of 2015-16 fund:** Encouraging authorities which already share a senior management team and any chief executive to go further with their plans to re-design their services.

### **Eligibility**

All district authorities with a shared senior management team and any chief executive, either with other districts or with a county council are eligible to bid.

### **Bidding and deadline**

#### *Pre-bidding Expression of Interest stage*

Before formally bidding to the fund, prospective bidders are asked to submit a letter detailing their Expression of Interest. The Expression of Interest should:

- Set out in brief terms, the project the authority would like funding for;
- How it will meet the criteria (see below)
- The amount of grant sought;
- State what the funding would deliver, how much it could cost; and
- Include an indication of commitment from partners.

Expressions of Interest should be received **no later than 5pm on 1 July 2014.**

A letter setting out an Expression of Interest, approved and signed by the Section 151 officer of each local authority partner and authorised person for other partners, should be returned in electronic format to [transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk)

#### *Formal bidding stage*

Formal bids to the fund should be submitted on the prescribed application. All partners to the application should sign the application. Political agreement from each of the participating authorities must be secured and demonstrated, to accompany the bid.

Bids should be submitted using **form A at Annex D.**

Bids should be received **no later than 5pm on 1 October.**

Completed bid forms, approved and signed by the Section 151 officer of each local authority partner and authorised person for other partners, should be returned in electronic format to [transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk)

### **Criteria**

Authorities in a shared relationship should demonstrate:

- a) Savings exceed the amount of grant sought;
- b) The support of a combination of partners e.g. authorities and other public and private partners;
- c) The benefits, both to local residents and financially, of the arrangement; and
- d) When a return will be realised.

**Evaluation**

When evaluating and comparing the bids, the department will take into consideration the number and nature of proposals received, including the scale of combination of sharing with partners and the level of expected costs, benefits and savings of each proposal. Regard will also be had to whether the proposal is part of, or potentially connected to, any wider public service reform involving other public and private sector service providers or other government department transformation funding.

**Process of allocating funds**

We will use the criteria set out above but final funding decisions are a matter for Ministers and there is no guarantee of funding.

Awards will be made only where the Secretary of State is satisfied that in his opinion, the proposal meets the criteria. If for each category of award the bids meriting support exceed the available resources, decisions on both which bids to select and the amount of any award will be made having regard to the extent to which the bids demonstrate the criteria.

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## **B. Encouraging places that have ambitious plans to work in partnership across the public sector and with the voluntary and community sector or the private sector to re-design services.**

The fund is designed to support local authorities take forward ambitious and transformational plans that deliver better services and improve the lives of local people. Recent examples of high quality, re-designed services have covered a diversity of areas, from asset management to children's services, and involved a range of partners from the wider public sector, voluntary and community, and private sector.

**Bournemouth, Poole and Dorset's 'Better Together' programme** aims to integrate health and social care, supported by £750,000 from the Transformation Challenge Award 2013-14. The programme brings together: three upper-tier local authorities; four NHS Foundation Trusts; a Clinical Commissioning Group; district and borough councils; Health and Wellbeing Boards; and Wessex NHS England.

**Sheffield's 'Successful Families' programme** has transformed the approach to vulnerable families. The programme's main aim is to re-design services to focus solely on the families using the service. This has required a multi-agency approach. The programme introduced key workers, who are often Voluntary and Community Sector workers, making support simpler for families. Vulnerable families in Sheffield now have one key worker, which is in contrast to the previous situation where these vulnerable families were working with up to twenty different professionals.

### **How to submit an Expression of Interest for Element B of 2015-16 fund:**

Encouraging places that have ambitious plans to work in partnership across the public sector and with the voluntary and community sector or the private sector to re-design services.

#### **Eligibility**

All authorities that have transformation plans in partnership with one or more partners, which can be other public sector bodies, the voluntary and community sector or the private sector, are eligible to apply to the fund.

#### **Bidding and deadline**

##### *Pre-bidding Expression of Interest stage*

Before formally bidding to the fund, prospective bidders are asked to submit an Expression of Interest – this will offer the authority the opportunity to develop their proposal with the department before formally bidding and therefore, making sure the bid is the best it can be.

Expressions of Interest should be submitted on the prescribed application form. All partners to the application should sign the application. Political agreement from each of the participating authorities must be secured and demonstrated, to accompany the bid.

## **Bidding and deadline (continued)**

The Expression of Interest should:

- Set out in brief terms, the project the authority would like funding for;
- How it will meet the criteria (see below)
- the amount of award required and the level of grant and / or use of capital receipts;
- State what the funding would deliver and approximately how much it could cost. (Please note that costing information will not be considered binding at the Expression of Interest stage. It is acceptable for the formal bid to be for a smaller or greater amount);
- Include an indication of commitment from partners; and
- For the flexible use of capital receipts – a brief assessment that the asset sale is additional.

Linking with other government departments' transformation programmes is welcomed but bidders for Transformation Challenge Award will need to disclose what other fund(s) they have applied for or secured and to confirm that there is additionality and no duplication.

Expressions of Interest should be submitted using **form B at Annex D**.

Expressions of Interest should be received **no later than 5pm on 1 July 2014**.

Completed Expression of Interest forms, approved and signed by the Section 151 officer of each local authority partner and authorised person for other partners, should be returned in electronic format to [transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk).

### *Formal bidding stage*

We plan to provide support to all authorities to develop their formal bid if they meet the criteria below. This support will be provided following the Expression of Interest stage between July and October. *A bidding form will be provided, if necessary, before the 1 October bidding deadline.*

### **Criteria**

All proposals must meet the following minimum criteria threshold:

- a) Projected savings must be greater than the grant/capital flexibility that is being bid for;
- b) The proposal must have a positive impact on service users;
- c) The proposal must be in partnership with at least one other partner. This could be another local authority, public authority, the Voluntary and Community Sector or a private sector partner; and
- d) For capital flexibility only: the value of the asset sale is additional. Authorities that provide evidence in support of their assessment of additional asset sales will increase their chance of being a successful bid.

Proposals which do not meet the above will not be invited to make a formal bid.

### **Evaluation**

We will respond to each Expression of Interest setting out how the proposal fits against the criteria and outline the package of support that is available for authorities to further develop their bids.



**Process of allocating funds**

The proposals meeting the minimum criteria (see above) at the Expression of Interest stage will be offered a range of support to help them submit a fuller more developed case, based on a more detailed approach which will explore the costs and benefits and assessment of the feasibility of the proposal in more detail. More guidance on this support, the fuller cost benefit approach and the final assessment approach will be made available at the end of July feedback stage.

We will use the criteria set out above for the Expressions of Interest stage but final funding decisions are a matter for Ministers and there is no guarantee of funding.

Awards will be made only where the Secretary of State is satisfied that in his opinion, the proposal meets the criteria. If for each category of award, the bids meriting support exceed the available resources, decisions on both which bids to select and the amount of any award will be made having regard to the extent to which the bids demonstrate the criteria.

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# Annex A

## Timetable for Transformation Challenge Award 2014-15 and 2015-16 Capital Receipt Flexibility

<b>1 July 2014</b>	Deadline for: a) Bids for 2014-15 (Elements A and B) b) Expressions of interest for 2015-16 (Element A and B)
<b>By end of July</b>	Feedback on Expressions of Interest 2015-16 (Element A and B)
<b>By end of August</b>	Announcement of successful bids for 2014-15 (Element A and B)
<b>1 October</b>	Deadline for: Formal bids for 2015-16 (Elements A and B)
<b>November (alongside Local Government Finance Settlement)</b>	Announcement of successful bids
<b>By 31 March 2015</b>	Feedback to unsuccessful bidders

## Frequently asked questions

**Q: Are the funds ring-fenced?**

**A:** No.

**Q: Can I bid for money for both 2014-15 and 2015-16 funds?**

**A:** Yes – so long as there is no duplication of funding and the schemes meet the criteria for both years.

**Q: Can I bid for both capital receipt flexibility and grant?**

**A:** Yes – the process encourages bidders to relate their capital receipt flexibility to resource bids. Bids can of course be submitted for only resource or capital receipt flexibility.

**Q: Can I bid for money from other government transformation funds.**

**A:** Yes – but you will need to 1) check the funding conditions of any other transformation fund to see if they allow for funding from other transformation pots and 2) tell us what other funding you have or bids you are making and explain how funding from the Transformation Challenge Award will enable you to achieve different or further benefits.

**Q: Do I need to put resources from council budgets or asset sales to fund our re-engineering or re-design project?**

**A:** Not necessarily – although you should bear in mind in assessing bids we will want to be satisfied that you are making the most of your existing resources.

**Q: Will there be an appeals process?**

**A:** No – We do not plan to hold a formal appeals process, which would delay us in issuing funding.

**Q: Why must asset sales be in addition to those the authority has already planned?**

**A:** The policy is to ensure additional resources are made available, not the existing receipts or receipts from planned sales which should otherwise be rightfully used for an authority's planned capital expenditure.

**Q: Where can I direct my questions about the Transformation Challenge Award?**

**A:** If you have any questions about the Transformation Challenge Award, please contact [transformation@communities.gsi.gov.uk](mailto:transformation@communities.gsi.gov.uk).

## Flexible use of capital receipts

The aim of the policy is to allow local authorities flexibility to spend their capital receipts from asset sales, which can normally only be used for capital expenditure, on the one-off revenue costs of service reform (which could include strengthening asset management plans). This annex sets out the framework agreed to allow a flexible use of capital receipts.

### **Implementation of the flexible use of capital receipts**

The flexibility on the use of capital receipts will be delivered through capitalisation, which is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It is a relaxation of the accounting convention that revenue costs should be met from revenue resources.

Permission for a flexible use of capital receipts will be given to each authority through a capitalisation direction, which the Secretary of State has the power to issue under section 16(2)(b) of the Local Government Act 2003. A draft direction letter for the purpose of implementing the flexible use of capital receipts is below.

The flexible use of capital receipts policy does not override other restrictions on the use of receipts from certain asset sales. For example, the pooling of certain housing capital receipts.

### **Level of funding**

As capitalisation scores as Public Sector Current Expenditure in the national accounts, it impacts directly on the deficit reduction programme. Therefore the Government has decided to allow up to £200 million of expenditure from a flexible use of capital receipts across 2015-16 and 2016-17.

### **Limits to the flexible use of capital receipts**

An aim of the policy is to encourage new asset sales so capital receipts obtained prior to the issue of the consultation will not be allowed to be used for this purpose. The capitalisation direction that will be issued will be limited by condition to the use of capital receipts from the disposal of assets on or after 1 August 2013.

To provide sufficient time to sell an asset the revenue expenditure will be allowed, by condition, over a 2 year period from 1 April 2015 to the 31 March 2017. The direction letter will also not specify the asset intended to be sold, just those capital receipts that can be used are those received on or after 1 August 2013.

## **Requirements for the flexible use of capital receipts**

A clear aim of this policy is to encourage additional asset sales. These assets would not necessarily need to be directly related to the service reforms. Local authorities will need to make an assessment identifying the extent to which the asset sales are additional, i.e. would not otherwise have occurred in the timeframe. Assessments that provide the best evidence of additional sales will have an increased chance of obtaining the flexibility available.

### *Draft direction letter for flexible use of capital receipts*

#### **LOCAL GOVERNMENT ACT 2003 SECTIONS 16(2)(b) AND 20: TREATMENT OF COSTS AS CAPITAL EXPENDITURE – APPROVAL**

I refer to your application of **[\*\*Date\*\*]** to **[\*\*Official\*\*]** (“the application”) applying for a capitalisation direction of **[\*\*£ Amount\*\*]** in respect of **[\*\*Description of purpose\*\*]**. I can now confirm that the application is given approval at a total not exceeding **[\*\*£ Amount\*\*]**.

Accordingly, the Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that (“the Authority”) shall treat as capital expenditure, expenditure which:

- i. is incurred by the Authority on **[\*\*A description of purpose\*\*]**.
- ii. does not exceed a total of **[\*\*£ Amount\*\*]** and;
- iii. is properly incurred by the Authority between 1 April 2015 and 31 March 2017.

In further exercise of the Secretary of State’s powers under section 20 of the Act, it is a condition of this direction that expenditure treated as capital expenditure in accordance with it be met by capital receipts within the meaning of section 9 of the Act and regulations made under that section (for current provisions see Part 4 of SI 2003/3146, as amended) and that the capital receipts are from a disposal of an asset on or after 1 August 2013.

The Authority must provide a written return to xxxxxx at Department for Communities and Local Government (contact details below) by 31 July 2017 to confirm how much expenditure has actually been capitalised by virtue of this direction.

This direction is given for the purposes of Chapter 1 of Part 1 of the Act only. It does not convey any other consent that may be required or any view as to the propriety of the expenditure. It is for the Authority to be satisfied that any amount to which this direction is applied is properly incurred.

If you have any queries in connection with the above, please do not hesitate to contact xxxxxx at the Department for Communities and Local Government in the first instance: Telephone: 030 XXX XXXX; [capitalisation@communities.gsi.gov.uk](mailto:capitalisation@communities.gsi.gov.uk).

Yours sincerely,  
Authorised to sign this direction by the Secretary of State for Communities and Local Government

## User Guidance: Completing the Transformation Challenge Award Financial Case Bid Calculator

### Why do you need to complete the bid calculator?

The calculator is a quick ready reckoner designed to help authorities complete the financial section of the bid form. It does this by automatically calculating the present value of the financial savings for the proposal once the required data has been entered.

### Step-by-step guide for completing the bid calculator

The following steps offer guidance on how to complete the Transformation Challenge Award Bid Calculator, supplied in Annex F. Only the “financial case” worksheet should be completed.

- **Step 1:** In the “financial case” worksheet, enter the name of the bidding organisation
- **Step 2:** Complete section 1 “project funding”. Please enter the grant amount, and where applicable the capital flexibility bid for in each year. In addition, you should detail any other funding sources for the proposal where the Transformation Challenge Award and capital flexibility bid does not cover the full costs. This could include funding from existing resources, or any other sources of funding - for example, the Better Care Fund<sup>1</sup>.
- **Step 3:** Complete section 2 “service spend without TCA funding”. This section should set out the service spend which would occur if no Transformation Challenge Award funding was received – the counterfactual or baseline costs.

Please enter details of estimated service costs for the bidding organisation and each partner over a 10 year period using 2014/15 prices. Where this period falls beyond usual budgeting horizons, this should be based on the best available estimate of future spending plans for the service. It is up to authorities to decide how to present the breakdown of service costs. For example, this could be based on budget allocations such as IT and staff costs, or costs of activities such as how much it costs to perform an assessment<sup>2</sup>.

Where transformation would be carried out anyway, even without Transformation Challenge Award funding, this should be reflected in the estimated costs.

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<sup>1</sup> Capital flexibility should be excluded in the breakdown of other funding section in order to avoid double-counting.

<sup>2</sup> Estimates of staff costs should include related costs such as employers’ pension contributions.

- **Step 4:** Complete section 3 “service spend with TCA funding”. This section should set out the service spend which would occur if Transformation Challenge Award funding is received.

As for section 2, please enter details of estimated service costs for bidding authority and partners over a 10 year period using 2014/15 prices. The breakdown should be the same as used in section 2, to make it clear which areas of spend would change with the introduction of Transformation Challenge Award funding. Please also specify if possible whether costs to each partner in the bid are in the form of monetary payments or contributions to service provision (i.e. whether cash or a staff resource contribution).

The key thing here is to be clear about what is driving the cost savings, for example, the funding may enable the authority to streamline its operation or reduce duplication of service provision. This should be detailed in column B “basis for estimates”.

- **Step 5:** Copy the “present value of savings” figure to the bid form. Once steps 1 to 4 have been completed, the calculator will automatically calculate the present value of savings (the cell highlighted in yellow). You can now copy the “present value of savings (£)” figure generated by the calculator in section 4 into the “financial business case savings” section in the bid form.

#### **What is net present value?**

Net present value is a widely used metric which allows projects with different profiles of cost and benefits to be compared. It does this by discounting future costs and benefits to provide a present value. In this case we are interested in the present value of savings generated by the project. This is calculated automatically in the bid calculator by discounting the stream of savings over a 10 year period using the HM Treasury recommended discount rate of 3.5 per cent which takes into account that near term savings are preferred to those further in the future.

The assumption is that all bids submitted will generate savings and will therefore have a positive present value of savings. Please check that your proposal has a positive present value of savings before submitting your bid.