

### Strategy for the Flexible Use of Capital Receipts

#### Background

Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) regulations 2003 made under section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure. The use of capital receipts to support revenue expenditure is not permitted by the regulations.

However, the Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a Direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

For a number of years, the local government sector has been lobbying central government to provide councils with greater freedoms and flexibilities in relation to the use of Capital Receipts to support the delivery of savings and efficiencies. In 2013, the Local Government Association argued that freedoms should be given to Councils to “release value currently residing on council’s balance sheets without the need for further funding from taxation; the sale of assets generates economic activity, as does transformational revenue expenditure”<sup>1</sup>.

In response, the Secretary of State for Communities and Local Government issued guidance in March 2016<sup>2</sup>, giving local authorities greater freedoms in relation to how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital:

*“expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.”*

The Local Government Association responded, stating: “We welcome the flexibility to use new capital receipts and the discretion given to councils in identifying qualifying projects”<sup>3</sup>.

To benefit from this dispensation and comply with the Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a ‘Flexible Use of Capital Receipts Strategy’. The guidance also requires that each authority should disclose the individual projects that will be funded or part funded through capital receipts flexibility to full Council or the equivalent. It goes on to say that this requirement can be satisfied as part of the annual budget setting process, through the Medium-Term Financial Plan or equivalent, or for

---

<sup>1</sup> LGA Consultation Response “Proposals for the use of capital receipts from asset sales: 24<sup>th</sup> September 2013.

<sup>2</sup> Statutory Guidance on the Flexible Use of Capital Receipts (Updated) DCLG March 2016

<sup>3</sup> Local Government Association (LGA) briefing: Provisional Local Government Finance Settlement 2016/2017 and an offer to councils for future years: 17<sup>th</sup> December 2015

those authorities that sign up to a four-year settlement deal, as part of the required Efficiency Plan. Accordingly this strategy sets out how the flexible use of Capital Receipts will be utilised in 2016/17 and for the remainder of the medium term strategy that falls within the qualifying period. Updates will be included in the Budget and MTFs reports to Assembly in future years or earlier if required.

There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects.

The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy should include a list of each project where it is intended capital receipts will be used, together with the expected savings that the project will deliver. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

### **Flexible Use of Capital Receipts Strategy**

The Council welcomes the Government's Flexible Use of Capital Receipts dispensation and believes that if it is used judiciously and prudently, it can help the authority deliver savings while protecting revenue budgets. Working in this way will help to protect jobs and shield the tax payer. It aligns with the more commercial approach the Council is adopting to the use of its balance sheet to get the best value from its assets, in terms of both acquisitions and disposals; and also boosting our income generating asset portfolio.

The Cabinet has already agreed to dispose of £11.9m worth of general fund capital assets during qualifying period. It is anticipated that these disposals will fall:

- £4.5m during 2016/17
- £5.3m during 2017/18
- £2.0m during 2018/19

None of these agreed asset disposals have currently been included in the Council's capital programme and are therefore available to be deployed flexibly. Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

*“Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.”*

The Council intends to use the capital receipts set out in the paragraph above to fund the projects set out in the table below. The figures shown in the table below are in, some cases yet to be finalized and are accordingly estimates of the maximum funding required. In these instances due diligence on final costs are on-going with the intention that final costs are lower than currently predicted. Where this is the case, the figures stated should be considered an upper limit.

The savings generated by these projects both incremental and cumulative are also set out in the table. Delivery of these savings is integral to the Budget set out in the main body of the report and in appendix B, the delivery of which are contingent upon the funding being in place for their delivery.

Project:		16/17	17/18	18/19
<b>Implementation of Community Solutions</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.19m		
	Implementation	£0.38m	£0.58m	£0.07m
	Total	£0.57m	£0.58m	£0.07m
	<b>Savings per year</b>		£0.24m	£2.48m
	<b>Cumulative savings 2020/21</b>			£11.14m

Project:		16/17	17/18	18/19
<b>Implementation of the care and support service block</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.53m		
	Implementation	£0.41m	£0.80m	
	Total	£0.94m	£0.80m	
	<b>Savings per year</b>		£4.35m	£3.54m
	<b>Cumulative savings 2020/21</b>			£32.99m

Project:		16/17	17/18	18/19
<b>Start-up cost for Be First &amp; Investment Strategy</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.49m		
	Implementation	£0.66m	£2.17m	£0.32m
	Total	£1.15m	£2.17m	£0.32m
	<b>Savings per year</b>		£1.02m	£2.51m
	<b>Cumulative savings 2020/21</b>			£29.94m

Project:		16/17	17/18	18/19
<b>Educational Attainment</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.02m		
	Implementation			
	Total	£0.02m		
	<b>Savings per year</b>			
	<b>Cumulative savings 2020/21</b>			

Project:		16/17	17/18	18/19
<b>Start-up cost for Traded Services</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.18m		
	Implementation		£0.42m	
	Total	£0.18m	£0.42m	
	<b>Savings per year</b>		£0.17m	£0.15m
	<b>Cumulative savings 2020/21</b>			£1.54m

Project:		16/17	17/18	18/19
<b>Leisure</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.03m		
	Implementation	£0.01m	£0.05m	
	Total	£0.04m	£0.05m	
	<b>Savings per year</b>		£0.26m	£0.59m
	<b>Cumulative savings 2020/21</b>			£3.34m

Project:		16/17	17/18	18/19
<b>Legal</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.03m		
	Implementation		£0.07m	
	Total	£0.03m	£0.07m	
	<b>Savings per year</b>	£0.11m		
	<b>Cumulative savings 2020/21</b>			£0.53m

Project:		16/17	17/18	18/19
<b>Parks &amp; Open Spaces</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.23m		
	Implementation	£0.01m	£0.04m	
	Total	£0.24m	£0.04m	
	<b>Savings per year</b>		£0.03m	
	<b>Cumulative savings 2020/21</b>			£0.33m

Project:		16/17	17/18	18/19
<b>Service Improvement</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.11m		
	Implementation	£0.44m	£0.31m	
	Total	£0.54m	£0.31m	
	<b>Savings per year</b>	£0.17m	£0.98m	£0.65m
	<b>Cumulative savings 2020/21</b>			£12.64m

Project:		16/17	17/18	18/19
<b>Customer Access &amp; Technology</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.69m		
	Implementation			
	Total	£0.69m		
	<b>Savings per year</b>		£0.84m	£0.52m
	<b>Cumulative savings 2020/21</b>			£5.92m

Project:		16/17	17/18	18/19
<b>Core Design &amp; Workforce Development</b>	<b>Proposed use of Flexible Receipts</b>			
	Design	£0.31m		
	Implementation	£0.07m	£0.13m	
	Total	£0.38m	£0.13m	
	<b>Savings per year</b>		£0.99m	£0.27m
	<b>Cumulative savings 2020/21</b>			£9.06m

Further additional receipts are also anticipated in the qualifying period and decisions about whether to earmark the receipts to be used flexibly will be made at the time.

At this juncture, it is anticipated that Cabinet in February will agree further disposals with the intention that they can be used Flexibly to support other qualifying expenditure incurred during the course of 2016/17 with any balance earmarked for future qualifying years.

On the assumption that this decision is taken and the asset disposal takes place during 2016/17, this strategy recommends that the one-off general fund costs of implementing the Council's Voluntary Redundancy scheme are financed by the disposal receipt. The General Fund costs of the Voluntary Redundancy Scheme in 2016/17 were £4m and the on-going savings were £1.8m.

### **Impact on Prudential Indicators**

The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy.

There will be no impact on the Council's prudential indicators as a result of the implementation of this strategy because none of the assets in question have currently been allocated to the for use in the Council's capital programme.