

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”¹.

In response, the Secretary of State for Communities and Local Government issued guidance in March 2016², 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.*”

This was extended in an amended direction² in December 2017 by a further three years up to and including 2021/22 to allow the continued flexible use of capital receipts for the above purposes.

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

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

² Statutory Guidance on the Flexible Use of Capital Receipts (Updated) DCLG March 2016, amended by extension Direction in December 2017

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 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 2019/20 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.

The Flexible Use of Capital Receipts Strategy is set out below

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.

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.”

In 2019/20, £1.4m capital receipts are forecast and will be available to provide funding for transformation. New transformation work agreed by Cabinet in January 2019 on Core Services also requires flexible use of receipts. The estimated costs and savings profile is as below:

	18/19 £000	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
Total Cost	(663)	(4,356)	(2,892)	(1,824)	0	0	0	(9,736)
Savings	0	0	4,949	7,853	8,480	9,057	9,634	39,973
Net Savings	(663)	(4,356)	2,057	6,029	8,480	9,057	9,634	30,237

Note: Figures in brackets represent costs/shortfall

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