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 2016[2], 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 direction[2] 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 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

[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

out how the flexible use of Capital Receipts will be utilised in 2021-22. 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 2021-22, £6.5m capital receipts are forecast and will be available to provide funding for transformation.

The Council has successfully used Capital Receipt funding to fund its 2016-2021 Transformation Programme which has delivered £29.314m to date and is expected to deliver a further £15.254m in 2020/21 and 2021/22.

In addition the Cabinet has approved the use of receipts for further programmes in Core, Childrens Services, Adults and Disabilities and Dispersed Working.

Approved expenditure for 2020/21 is shown in the table below.

2016-2021 Transformation Programme	Budget £000	Spend £000	Forecast £000	Forecast Variance
Customer Access Strategy (CAS)	620	383	467	-153
New Ways of Working (formerly Smarter Working) Programme	517	158	158	-359
Community Solutions	1,111	665	740	-371
Programmes Added in 2019/20				
Children's Improvement Programme	528	415	467	-61
Core and B&D Way	2,892	1,153	2,930	38
New Programmes Added in 2020/21				
Adults and Disability Improvement Programme	307	25	25	-282
Dispersed Working	420	-	420	-
TOTAL for 2020/21	6,395	2,799	5,207	-1,188

The first four programmes listed are expected to finish at the end of this financial year with the exception of any minor delays.

The following programmes will be operational during 2021/22 and are eligible for the use of capital receipts.

	2021/22 Budget £000
Core Programme	1,824
Adults and Disabilities	420
Dispersed Working	1,705
TOTAL	3,949

Further Information on each of the programmes is provided below.

Core Programme

The Core Programme business case was approved by Cabinet in January 2019 and is forecast to deliver £5.9m of savings by the full completion of the programme as follows:

Core Programme	2020/21`	2021/22	2022/23
Costs	2892	1824	
Savings Forecast	2315	4457	5875

Adults, Disability and Mental Health.

There is an improvement programme in Adults, Disabilties and Mental Health that is expected to improve services and provide savings through process improvements and increased income as shown below.

Adults Disabilities and Mental Health	Costs		
	2020/21`	2021/22	2022/23
Programme Management, Design and Analysis	225	255	0
Social Work and Financial Assessment Implementation	82	165	0
	307	420	0
	Savings		
Process Improvements and Income collection	375	25	
Disability savings and CHC income		136	290
	375	161	290

Dispersed Working and Flexible Hubs

The updated Corporate Plan 2020 – 2022 sets out our commitment to the implementation of "*a digitally enabled, truly **dispersed** model, which is less reliant on central offices and allows more of our staff to spend more of their time in the community, closer to residents. This model will be built around the reconfiguration of our buildings, so that they can act as more resident-centred, integrated **community hubs**.*"

Over the next year, the Core will work in partnership with the Council's Operational Divisions to develop, test, and implement this model. This work will be structured around two phases:

- **Phase one: Development** *January to March 21*. Focused on reviewing evidence and testing initial thinking with a view to developing more detailed proposals.
- **Phase two: Implementation** *April to December 21*. Focused on the implementation of proposals related to Community Hubs and Dispersed Working.

The implementation of proposals during phase two will require new resources above and beyond those that have been identified above to support phase one. To support phase two implementation, we are proposing the creation of an indicative funding envelope based on initial estimates about the work required to deliver the desired outcomes – Table 1.0 below.

The specific size and shape of this resource ask will depend upon the outcome of phase one activity. Before any resource is fully committed, these estimates will need to be supplemented by more detailed proposals/designs that will be signed off by the relevant officer boards.

Strategic priority	Description and key deliverables	Infrastructure, buildings, IT costs	Project and programme costs
Community Hubs and Dispersed Working	Improvements to existing core hubs at Dagenham Library and BLC.	**£150k**	N/A
	Options for future redevelopment of existing hubs into new core Hub provision as part of wider regeneration opportunities.	N/A *part of any future capital programme*	**100k**
	Development of wider network of local hubs including local access points.	**£200k**	N/A
	Design and delivery of specific hub-based initiatives to address identified local issues.	N/A	**£200k**
	Reconfiguration of the Town Hall to support a dispersed working model.	**£440k**	**£80k**
	Reconfiguration of Frizlands and digitisation of My Place frontline services to support a dispersed working model.	**£90k**	N/A
	Development of facilities management, internal communications, OD, wellbeing functions to support a dispersed working model.	N/A	**£120k**
	Overall programme management	N/A	**£115k**
	20% contingency	**£180k**	**£130k**
	Totals	**£1.06m**	**£645k**
		Overall total	**£1.705m**

This programme will make corporate accommodation savings of at least £0.375m and may also generate capital receipts in future.

Appendix G

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