

Strategy for the Flexible Use of Capital Receipts 2024/25

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”*.

In response, the Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms in relation to how capital receipts can be used to finance expenditure. This Direction allowed 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 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. Further updated statutory guidance was issued by the Department for Levelling Up, Housing and Communities (DLUHC) in August 2022 which extended the scheme for the financial years 2022/23, 2023/24 and 2024/25.

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 (the Assembly). 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.

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 Secretary of State has extended the scheme further to cover the financial years 2022/23, 2023/24 and 2024/25 with clear requirements to use this flexibility.

1. A strategy for the flexible use of Capital Receipts is published and approved by the Local Authority.
2. A submission of this strategy is made to DLUHC.

The direction also includes a new requirement to submit the planned use of the flexibility in advance of use for each financial year. This condition can be met by sending the authority's own strategy documents provided they contain the detail asked for in the direction. This is not an approval process, and authorities can still freely use the flexibility as before, but the information must be sent to ensure transparency and allow proper monitoring by central government.

The recent detailed guidance clearly outlines that ongoing savings or increased income must be forecast because of the project funded by flexible use of capital receipts. This is a tightening of the guidance.

The Flexible Use of Capital Receipts Strategy for Barking and Dagenham for 2024/25 is set out below.

Flexible Use of Capital Receipts Strategy 2024/25

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 and reserves. Working in this way will help to protect jobs and shield the taxpayer.

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."

It has been clarified that ongoing savings or income must be forecast as a direct result of the project funded by the strategy. Within the revenue budget proposals for 2024/25 there are a significant number of savings to be delivered, of which a number are underpinned by four corporate transformation programmes. Target operating models will be revised as well as staffing structures underpinning those new operating models.

Investment resources have currently been identified within the Council's revenue budget and earmarked reserves and utilising capital receipts instead will mean that these resources will then be available to assist in protecting the Council's financial sustainability.

The details around, the quantum of capital receipts that it is proposed will be used under this strategy and the resulting ongoing savings, is currently worked up by way of robust business cases. Once business cases have been presented, these will be presented to Full Council for approval in 2024/25 in line with statutory reporting requirements and timelines.

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. The impact will be assessed and reported in the report that is presented to Full Council for approval.