

### Strategy for the Flexible Use of Capital Receipts 2022/23

#### 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. Accordingly, this strategy sets out how the flexible use of capital receipts will be utilised in 2022/23. 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.

As referred to above, the scheme has been further extended for the financial years 2022/23, 2023/24 and 2024/25. There are 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 2022/23 is set out below.

### **Flexible Use of Capital Receipts Strategy 2022/23**

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 taxpayer. 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.”*

It has been clarified that ongoing savings or income must be forecast because of the project funded by flexible use of capital receipts

In 2022/23 the below schemes have been identified as within the Transformation Programme and therefore eligible to be funded from Capital Receipts. These fall within Adult Services.

## Adult Services

There is an improvement programme in Adult Services that is expected to improve services and provide savings through process improvements and increased income as shown below. Although the savings generated in this year are lower for the Direct Payments Project than anticipated spend, this is due to the savings being weighted in the early part of the project. There is an additional £24k of cost avoidance associated with this spend. Overall savings will exceed spend in this programme and ongoing changes to practices will embed cost reduction.

Project	Outcome	Funding Required	Savings Generated
Adults Direct Payment Review	Review of the Direct Payment process and Cases - this work has slipped into 2022/23. It should be noted savings of c£86k were made in the first year frontloading the savings. This process now focuses on the policy and well as the review.	86,000	75,000
Adults Financial Assessment Review Officer	Review of cases for Financial Assessment - embed improvements in process	28,000	50,000

## Programs that will now be funded from General Fund

There are several projects that formed the original Transformation programme and were funded from Capital Receipts. These programs have ongoing activity within 2022/23, although they have been deemed to fall outside out the revised criteria for flexible use of capital receipts due to not delivering ongoing savings because of 2022/23 spend. These programs are under way and General Fund funding has been identified. This will cause an additional pressure of £1,699,500 on the General Fund or need to be funded from reserves.

The ERP project was financed from the capital receipts flexibility in 2021/22. It is anticipated that expenditure in 2022/23 will be financed from the Budget Support Reserve. This is detailed below:

Project	Funding From	Funding Required
Development of new OD and wellbeing function under Dispersed Working including staff induction.	Corporate Management	97500
Feasibility study for future redevelopment of Roycraft House	Business Support Reserve/Corporate Management	30000
Internal comms resource to support Dispersed Working	Corporate Management	17000
System Development and Business Objects support:	Business Support Reserve	85,000
Data Analyst	Corporate Management	60,000
Multi-agency Safeguarding Review	Service	100,000

Scan it scrap it store it	Business Support Reserve	80,000
ERP	Business Support Reserve	1,200,000*

\* £1.2m is expenditure to date. This will increase as the year progresses.

### **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 for use in the Council's capital programme.