

Purpose

1. This report provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this authority. As part of the finance settlement for 2016/17 the government announced new flexibilities allowing local authorities to use capital receipts received in 2016/17, 2017/18 and 2018/19 to be used to fund transformational expenditure, which can include redundancy costs. This was extended in the 2018/19 as part of the Local Government Finance Settlement for a further three years until 2021/22.
2. The Council, as part of the medium term financial plan assumed a level of £6.3m of capital receipts to be available to support transformational schemes in 2018/19, however the amount required has been revised to £2.14m. It is estimated that receipts generated will meet this target.
3. The use of capital receipts to fund restructuring costs (up to the value of those capital receipts), rather than applying revenue resources / reserves that would have been previously necessary, allow for these revenue resources to be directed to service areas to facilitate further service re-development and also mitigate the financial pressures of the Authority for the current and ensuing year.

Background

4. 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, and the use of capital receipts to support revenue expenditure is not permitted by the regulations.
5. 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.
6. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts could be utilised. 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.”
7. In order to take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This Guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents and reported as appropriate.
8. There is no prescribed format for the Strategy, but the underlying principle is to support the delivery of more efficient and sustainable services by extending the use of capital receipts to finance costs of efficiency initiatives that deliver significant savings. A list of each project should be incorporated in the strategy along with the expected savings each project is expected to

realise.

Flexible Use of Capital Receipts Strategy

9. 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.”

10. The Council intends to use the following use of capital receipts to fund the following transformation project:

| Project Description | Actual 2016/17- 2017/18 £m | Estimate 2018/19 £m | Estimate 2019/20 £m | Estimate 2020/21 £m | Estimate 2021/22 £m |
|---|-------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Costs to support - Organisational Business Change Programmes / Business efficiency programmes. | 5.30 | 2.14 | | | |
| Resources earmarked for future Business Change / efficiency programmes with future savings to be identified | | - | 3.64 | 1.52 | 0.35 |
| Total | 5.30 | 2.14 | 3.64 | 1.52 | 0.35 |

11. The contribution these Capital Receipts to support funding of these projects has, or plans to generate the following savings as set out in the table below and within **appendix X** of the budget report.

| Project Description | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Organisation restructures | 9.200 | 9.200 | 9.200 | 9.200 | 9.200 | 9.200 |
| Business Efficiencies | 24.179 | 24.772 | 25.522 | 25.792 | 25.962 | 25.962 |
| How Services are funded / provided | 24.461 | 35.063 | 41.521 | 46.631 | 44.084 | 44.084 |
| Income generation | 6.450 | 8.109 | 9.543 | 10.003 | 10.074 | 10.074 |
| Reshaping Services | 9.216 | 9.836 | 9.846 | 10.106 | 10.136 | 10.136 |
| Total Savings | 73.506 | 86.980 | 95.632 | 98.732 | 99.456 | 99.456 |

Impact on Prudential Indicators

12. The indicators that will be impacted by this strategy is set out below;
 - Capital Financing Requirement increased by £5.3m (2016/17) as these capital receipts were intended to support schemes within the existing programme that are now budgeted to be financed by prudential borrowing. The 2017/18 Capital Programme and beyond made no general provision for schemes to be funded by Capital Receipts. Schemes financed by prudential borrowing are reflected within the prudential indicators as set out within the Treasury Management Strategy and included as part of the budget.
 - Financing costs as a percentage of net revenue stream (%), noting that the savings generated from these projects will meet the debt financing costs arising from the additional borrowing. The indicative cost of borrowing £5.3m is £200k pa.
13. The Prudential Indicators show that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits.