

APPENDIX 5**Flexible Use of Capital Receipts Strategy****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 2018/19 as part of the Local Government Finance Settlement for a further three years until 2021/22.
2. The government is expected to announce a further extension of the flexible use of capital receipts for 2022/23. However, at the time of writing it is not clear how long the extension will be for and if there will be any changes to the guidance. A broad steer has been provided by government to suggest the guidance will be updated to focus on transformation spend. This strategy is written on the basis the flexibilities will continue for 2022/23 only and the guidance will be adapted to focus on transformation spend. However, it should be recognised the strategy will need to be flexible to adapt to the guidance adopted by government.
3. The use of capital receipts to fund transformational costs (up to the value of those capital receipts), rather than applying revenue resources / reserves that would have been previously necessary, allows for these revenue resources to be directed to service areas to facilitate further service re-development and mitigates 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 allowed 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. 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 1 April 2016 with future strategies included within future annual budget documents and reported as appropriate.

Flexible Use of Capital Receipts Strategy

8. Government has provided a definition of expenditure that qualifies for funding 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.”

9. The Council intends to use capital receipts to fund the following transformation projects:

Table 1: Transformation projects funded by capital receipts

Project Description	2016/17 £m Actual	2017/18 £m Actual	2018/19 £m Actual	2019/20 £m Actual	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate
Organisational Business Change	5.300	-	-	-	-	-	-
Project Management	-	-	-	0.400	-	-	-
IT Transformation Programme	-	-	-	2.172	3.203	1,307	-
Strengthening Families	-	-	-	0.237	0.060	-	-
Resources earmarked for future efficiency programmes	-	-	-	-	-	2.200	5.000
Total	5.300	-	-	2.809	3.263	3.507	5.000

10. Since the flexibility was introduced the Council has applied £11.372 million of capital receipts for transformation and savings, with plans for a further £8.507 million.
11. Capital receipts are primarily used to fund capital investment which has a relatively short economic life such as IT investment where borrowing is not economical. Excluding land disposals to Goram Homes, the 2022/23 budget assumes £20 million of capital receipts to fund the capital programme. At the end of the financial year the Council estimates to have £9 million of capital receipts not applied towards this target, with a pipeline of disposals to meet the commitments in the budget.
12. If capital receipts generated are insufficient to meet these commitments other funding sources will need to be identified or expenditure reduced.

Project Management

13. In February 2018 the Council agreed a £76.4 million programme of savings to deliver a balanced budget for the medium term as set out in the table below. The savings programme had undergone reviews, where previously identified savings that are no longer deemed deliverable had been mitigated by new schemes for delivery. However, this does not result in any changes to the overall savings and efficiency envelope previously approved. The capital receipts outlined in this report support the project management capacity for the agreed savings programme and delivery of specific savings and efficiency programmes within it.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total savings £'000
Improving our business efficiency – Total	9,879	3,493	3,710	3,270	3,220	23,572
Changing how we fund and provide services – Total	15,864	10,602	6,458	2,110	453	35,486
Increasing our income – Total	4,570	2,659	2,434	1,460	1,071	12,194
Reducing or stopping services – Total	4,186	620	10	260	30	5,106
Total	34,499	17,374	12,612	7,100	4,774	76,358

Figure 1: Savings to Deliver a Balanced Medium Term Budget, February 2018

14. This programme has been successful in delivering the outlined savings, with only a small amount of savings not delivered. Any non-delivery is reported, through the Delivery Executive, to Cabinet

and alternative savings identified to replace them. Full detail on delivery of these savings is provided within monthly finance reports to Cabinet.

Strengthening Families

- The Strengthening Families Programme has now closed. On 14 October 2019 a progress update on the delivery of outcomes and efficiencies was reported to People Scrutiny Commission. Whilst the programme succeeded in making savings in external placement costs there are wider service demands which means the budget cannot be reduced; this was reflected in the 2021/22 budget.

IT Transformation

- In July 2018, Cabinet approved £20.3m (£7.2m revenue, £13.1m capital) to deliver the FSA programme over a period of 3-5 years. The programme set out components needed to build on the current IT platforms and ICT service delivery to deliver an efficient, modern, secure, flexible service which supports delivery of business outcomes in support of the Capital Strategy.
- No specific savings have been aligned to this project, but significant efficiencies have occurred as a result of this investment, for example being able to continue business operations during the Covid-19 pandemic. Performance of the IT Transformation Programme was monitored by the Resources Scrutiny Commission.

Future Efficiencies (2021/22)

- This strategy earmarks £2.2 million for transformation during 2021/22, in particular to support digital transformation and other change activities across the Council. Further detail was provided in the main budget report for 2021/22.

Future Efficiencies (2022/23)

- This strategy earmarks £5 million for transformative change during 2022/23. The emerging Change Portfolio for 2022/23 contains a number of significant transformation pieces of work that will start to change the way in which the Council is organised and how it delivers its services. This includes further Digital Transformation, the Common Activities Programme and the Corporate Landlord Project. Each of these are expected to deliver better, more efficient services to the city and realise financial savings.
- In addition, there are a number of projects directly supporting the release of financial benefits committed to in the budget and medium term financial plan such as a fees and charges review, library technology review and a review of housing allocations and lettings; as well as work that will target reducing demand for services now and in the future, such as the Children's Placements Recovery Programme as well as the Technology Enabled Care project within adult social services.

The table below details the planned savings set out over the medium term period, further detail is set out in the budget report.

Themes	2022/23	2023/24	2024/25	2025/26	2026/27	Total By Theme
	£'000	£'000	£'000	£'000	£'000	£'000
Property and capital investment	-1,510	-2,050	-895	-550	-468	-5,473
Be more business-like and secure more external resource	-2,747	-1,975	-415	0	0	-5,137
Improve efficiency	-6,342	-904	0	-123	0	-7,369
Digital transformation	-310	0	0	0	0	-310
Reducing the need for direct services	-1,450	-300	50	0	0	-1,700
Redesigning, reducing or stopping services	-5,507	-7,960	-500	0	0	-13,967
Total	-17,866	-13,189	-1,760	-673	-468	-33,956

Figure 2: Medium Term Savings 2022/23

Impact on Prudential Indicators

- The indicators that will be impacted by this strategy are 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 in 2017/18 was £200k pa.
22. The prudential indicators show that this strategy is affordable and will not affect the Council's operational boundary and authorised borrowing limit.