

### Flexible Use of Capital Receipts Strategy 2023/24 to 2024/25

#### Background and guidance

1. 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. 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.
2. 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.
3. In February 2021, the Secretary of State announced, alongside the local government finance settlement, the continuation of the capital receipts flexibility programme for a further three years, 2022/23, 2023/24 and 2024/25 to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.
4. This strategy provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this authority.
5. Accordingly, the Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that:
  - The expenditure for which the flexibility can be applied and treated as capital expenditure (known as ‘Qualifying Expenditure’), should be:
    - Expenditure properly incurred by the authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024
    - Expenditure for which local authorities cannot borrow, for example revenue costs of the service reforms.
    - Up-front (set up or implementation) costs for a proposal that is designed to generate future ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or the demand for services in future years for any of the public sector delivery partners; and
    - The expenditure for which the flexibility cannot be applied (Non Qualifying Expenditure), should be:
      - The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
      - Cost incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments.

6. The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure and examples of qualifying expenditure is outlined in Annex 2 of this strategy.

## Objectives and purpose

7. The Corporate Strategy 2022 to 2027 sets out the council's vision for Bristol, including the key priorities to be delivered over the medium term. It links with other key strategies and contributes to the delivery of the long-term One City Plan and shared vision for the city.
8. The Corporate Strategy will lay the foundation for delivery of the vision and consists of 7 high level strategic themes:
  - **Children and Young People** - City where every child belongs and every child gets the best start in life, whatever circumstances they were born in to.
  - **Economy and Skills** - Economic growth that builds inclusive and resilient communities, decarbonises the city and offers equity of opportunity.
  - **Environment and Sustainability**- Decarbonise the city, support the recovery of nature and lead a just transition to a low carbon future.
  - **Health, Care and Wellbeing** - Tackling health inequalities to help people stay healthier and happier throughout their lives.
  - **Homes and Communities** - Healthy, resilient and inclusive neighbourhoods with fair access to decent, affordable homes.
  - **Transport and Connectivity** - A more efficient, sustainable and inclusive connection of people to people, people to jobs and people to opportunity.
  - **A Development Organisation** - From city government to city governance: creating a focussed council that empowers individuals, communities and partners to flourish and lead.
9. This flexible use of capital receipts strategy is intended to support the council in delivering its objectives outlined against the themes, and potentially take advantage of the extension of the flexibility where appropriate to use capital receipts to fund transformation projects with qualifying criteria.

## Historic Use of Capital Receipts Flexibility 2016/17 to 2020/21

10. Since the flexibility was introduced, the council has applied £11.372 million of capital receipts for transformation and savings as outlined in table 1 in Annex 1 attached.
11. These programmes have been successful in delivering a combination of non-cashable / enabling savings to improve efficiency and effectiveness and cashable revenue savings which have reduced the net expenditure. Internal governance arrangements are in place to monitor the delivery of agreed savings and details provided within quarterly finance reports to Cabinet.
12. Assurance in relation to the council's processes for monitoring the delivery of savings and for large transformation / efficiency programmes is provided by Internal Audit.
13. The 2022/23 budget proposal presented to Full Council in February 2022 (produced in line with the previous direction) included proposals to utilise the flexible use of capital receipts. However, from the capital receipts forecasted to be received during 2022/23 funding for the capital programme has been prioritised and alternative funding sources

identified for delivery of these programmes. This flexibility has not been used in 2022/23.

### **Future Use of Capital Receipts Flexibility 2023/24 to 2024/25**

14. This strategy earmarks £10 million for transformative change during 2023/24 and 2024/25. The value of expenditure capitalised must not exceed the amount set out in the plan, including any updated plans, provided to the Secretary of State. If capital receipts generated are insufficient to meet these commitments, other funding sources will need to be identified or expenditure reduced.
15. The projects in table 2 (Annex 1) have been included in this strategy as being potentially eligible for capital receipts funding to support their delivery (subject to its availability and their approval), with a description of the project, project objectives, and potential planned use of receipts.
16. The proposals illustrated in the table (subject to their approval) will directly support the release of net financial benefits committed to in the budget. This list is not definitive and subject to availability of this value of receipts. Should further or more priority projects with qualifying expenditure be identified during the course of the year, further revisions will be made to the strategy and will be requested through the relevant channels for resubmission in line with the council's Policy and Budget Framework Rules.
17. Table 3 (Annex 1) details the planned savings set out over the medium term period in the council's budget from which alternative propositions may be identified and further detail is set out in the budget report.

### **Disposals**

18. Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
19. It is a condition that the disposal of assets by which the capital receipts are obtained must be disposals by the local authority outside the "group" structure. Here "group" has the same meaning as defined in "group accounts" in the Code of Practice on Local Authority Accounting, as issued by Chartered Institute of Public Finance and Accountancy (CIPFA), whether or not these transactions are consolidated into group accounts and irrespective of whether the authority produces group accounts.
20. 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 2023/24 budget assumes £25 million of capital receipts to fund the general fund capital programme and a further £10 million for transformation using this flexibility. At the end of the financial year 2022/23 the council estimates to have £2 million of capital receipts, with a pipeline of disposals to meet the commitments in the budget.
21. The amount of planned capitalisation using the flexibility for 2023/24 and 2024/25 is £10 million of which £8 million is for the financial year 2023/24.

### **Impact of 2023/24 strategy on Prudential Indicators**

22. The guidance requires that the impact on the council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. These capital receipts have not been factored into the council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure.
23. Capital receipts which are allocated to fund the council's capital programme have been allocated, will be monitored throughout the year and will not be subsequently used to fund qualifying expenditure. Therefore, there will be no change to the council's Prudential Indicators that are contained in the Treasury Management Strategy Statement which will be presented to Full Council in February 2023 for approval.
24. The prudential indicators show that this strategy is affordable and will not affect the council's operational boundary and authorised borrowing limit.
25. In using the flexibility, the council will have due regard to the Guidance on Flexible Use of Capital Receipts issued by the Secretary of State under section 15(1)(a) of the Act, the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

## **Governance**

26. It is a condition that local authorities applying this direction must send details of their planned use of the flexibility to the Secretary of State for each financial year in which the direction is used.
27. This should be sent as soon as is practicable after the council has determined and approved its strategy for the use of the direction but must be sent before the flexibility is used. Where local authorities update their plans during the financial year, an updated plan reflecting the changes must be sent to the Secretary of State. This requirement can be met by providing to the Secretary of State a copy of the authority's own planning documents.
28. By submitting the information set out to the Secretary of State the council will have met the condition; there is no further requirement to receive explicit consent in order to use the flexibility as set out in this direction. It is expected that the council will evidence compliance in full with this condition to their external auditors as necessary.
29. The strategy will be presented with the budget annually to Full Council for approval.

Table 1: Historic Use of Capital Receipts Flexibility

Project	Description / Benefits	Qualifying Expenditure					
		16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	Total £m
		Actual	Actual	Actual	Actual	Actual	Actual
Organisational Business Change	Programme to right size and shape how the organisation work to make it more effective, streamline processes and deliver operational efficiencies, which were reduced from net expenditure.	5.300	-	-	-	-	5.300
Transformation Project Management	Project management capacity to support the delivery of the agreed £76 million 2018, medium term savings programme and delivery of specific savings with qualifying expenditure within it. The IT transformation and Strengthening Families are included in this programme.	-	-	-	0.400	-	0.400
IT Transformation Programme	Transform ICT service to deliver an efficient, modern, secure, flexible service which supports delivery of the Corporate Strategy. Cashable and non-cashable efficiencies have been generated from reduce support cost, facilitating remote working and more recently hybrid working post pandemic.	-	-	-	2.172	3.203	5.375
Strengthening Families	The programme objective was a system-wide transformation of children's services, which succeeded in making savings in external placement costs; however wider service demands mean the budget could not be reduced	-	-	-	0.237	0.060	0.297
<b>Total</b>		<b>5.300</b>	<b>0.000</b>	<b>0.000</b>	<b>2.809</b>	<b>3.263</b>	<b>11.372</b>

**Table 2: Future Use of Capital Receipts Flexibility**

Project	Qualifying Expenditure			Description / Benefits	Medium Term Savings					
	23/24	24/25	Total		23/24	24/25	25/26	26/27	27/28	Total
	£m	£m	£m		£m	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate		Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Reduce council-owned property	5.000		5.000	In light of new ways of working following COVID-19, this programme will enable the Council to operate from fewer buildings and ensure buildings can be rented out to other public and private sector partner and therefore the council would be able to benefit from lower cost and higher rental income.	-3.500	-3.500	-3.500	-3.500	-3.500	-17.500
Transformation Project - Delivery Capacity	3.000	2.000	5.000	Project management, commissioned support service capacity to support the delivery of the agreed £xx million 22/23 and 23/24 5 year savings programme This will be applied to the delivery of specific savings with qualifying expenditure within it, a number of which are illustrated below:	See Below					
Home to Education Transport				Redesign the service to provide a more efficient Needs-led Statutory Home to School Transport Service, developing more sustainable travel options, including independent travel, for young people with Special Educational Needs and Disability aged 16-25.	0.432	-1.838	-1.968	-2.160	-2.414	-7.948
Foster Carer Recruitment and Retention				Supporting Fostering Services to recruit and retain foster carers, with innovative approaches and strategies to encourage and support people with the right skills and experience, to come forward and offer some of our most vulnerable children an opportunity to experience a stable family life. This proposal would significantly increase our cohort of local foster carers and reduce the use of more expensive distant placements and the use of Independent Fostering Agencies	-0.173	-1.457	-2.071	-2.322	-2.615	-8.637
Undertake Care Act reviews				This programme aims to undertake planned Care Act reviews for people who are receiving care services to ensure we are helping people to maximise independence, access the right support, making best use of community resources and Technology Enabled Care and getting value for money from care services.	-1.000	-1.000	-1.000	-1.000	-1.000	-5.000
Temporary Accommodation Need				This programme aims to reduce the costs of providing temporary accommodation to those with immediate housing needs. We will do this by creating new temporary accommodation, making use of existing properties, including council housing, and working with partners to source available properties. This will reduce our spend on expensive and inappropriate accommodation like hotels.	-1.941	-2.762	-2.762	-2.762	-2.762	-12.989
Strategic Business Review of Fees and Charges				Consolidated Programme - identifying new charging areas, ensuring charging opportunities for all goods or services are levied and reflect market rates (removal of subsidies) and the development and testing of a full cost recovery model and calculator.	-0.500	-0.500	-0.500	-0.500	-0.500	-2.500
Resource Directorate Workforce				Reduce the amount of money we spend on staff by restructuring and reducing our support service to support a smaller organisation following the implementation of the councils change programme.	-3.080	-3.630	-3.630	-3.780	-3.780	-17.900
<b>Total Potential Spend</b>	<b>8.000</b>	<b>2.000</b>	<b>10.000</b>	<b>Total Estimated Savings</b>	<b>-9.762</b>	<b>-14.687</b>	<b>-15.431</b>	<b>-16.024</b>	<b>-16.571</b>	<b>-72.474</b>

**Table 3: Medium Term Savings - 2023/24**

<b>Directorate</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adults and Communities	-6.507	-2.995	-0.550	-0.468		<b>-10.520</b>
Children and Education	-1.887	-5.496	-1.262	-0.443	-0.547	<b>-9.635</b>
Growth & Regeneration	-7.597	-1.081	-0.001			<b>-8.679</b>
Resources	-4.751	-4.536	-0.160	-0.150		<b>-9.597</b>
Whole Council	-5.500					<b>-5.500</b>
<b>Total:</b>	<b>-26.242</b>	<b>-14.108</b>	<b>-1.973</b>	<b>-1.061</b>	<b>-0.547</b>	<b>-43.931</b>

## Annex 2 - Examples of qualifying expenditure

There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector body;
- Investment in service reform feasibility work, eg setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others);
- Integrating public facing services across two or more public sector bodies (for example children’s social care, trading standards) to generate savings or to transform service delivery.