Full Council

13 December 2016

Note: this report is subject to a decision at Cabinet on 6 December 2016

Report of: **Service Director - Finance**

Title: **Capital receipts flexibility**

Ward: Citywide

Member Presenting Report: **Cllr Craig Cheney, Cabinet member for Finance, Governance and Performance**

Recommendation
To approve the Strategy for the Flexible use of Capital Receipts as set out in paragraphs 14 to 18 of the report.

Summary
This report sets out the recent change in legislation that allow Capital Receipts to fund revenue transformational schemes. Officers have prepared, for Full Council's approval a "Flexible Use of Capital Receipts Strategy" to take advantage of this change in legislation that will assist with mitigating the current revenue budgetary pressures.

The significant issues in the report are:
The adoption of this strategy will enable the release of up to £5.3m from revenue reserves set aside for transformational schemes, that can be utilised to partly mitigate the 2016/17 budgetary pressure. These capital receipts were intended to fund the capital programme. This source of finance will be replaced with borrowing that will increase the debt borrowing costs of the authority by some £250k per annum.

Policy

1. Not applicable

Consultation

2. **Internal**
   Cabinet

3. **External**
   None

Purpose

4. This report reviews 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.

5. The Council currently assumes £5m per annum capital receipts in its capital financing budgets. In 2016/17, it is currently estimated that receipts will be £5.3m, with at least £15m across 2017/18 & 2018/19.

6. The use of capital receipts to fund restructuring costs (up to the value of those capital receipts), rather than reserves as is currently planned, will allow the release of an estimated £5.3m, which could then be made available to mitigate the financial pressures in this financial year.

Background

7. 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.

8. 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.

9. 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."*

10. 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.

11. 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.

12. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

13. The proposed Flexible Use of Capital Receipts Strategy is set out below

Flexible Use of Capital Receipts Strategy

14. 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."

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

Project Description	2016/17 £m	2017/18 £m	2018/19 £m
Restructure costs as part of Business Change Programme	5.30	0	0
Total	5.30	0	0

16. The savings generated by these projects are set out in the table below.

Project Description	2016/17 £m	2017/18 £m	2018/19 £m
Business Change programme	3.08	7.25	7.25
Less: Financing	(0.01)	(0.25)	(0.25)
Total	3.07	7.00	7.00

Impact on Prudential Indicators

17. The indicators that will be impacted by this strategy are set out below;
    - Estimates of Capital Expenditure Indicator increased by £5.3m
    - Capital Financing Requirement increased by £5.3m as these capital receipts were intended to support schemes within the existing programme that will now be financed by prudential borrowing.
    - 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.
    - Incremental Impact on Council Tax / Housing Rents of Capital Investment Decisions - Not relevant as savings will meet the debt financing costs

18. The Prudential Indicators show that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits.

Proposal

19. That the "Flexible Use of Capital Receipts Strategy" as set out in paragraphs is 14 through to 18 is approved to support the financing of the Council's Business Change Programme in 2016/17.

Other Options Considered

20. Not applicable but to note further options are being considered to mitigate the budgetary pressures of the authority, as set out in the monthly monitoring to Cabinet.

Risk Assessment

21. As set out in the report.

Public Sector Equality Duties

There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to the financing options available to the authority including adherence to legislation and various regulations.

(Legal advice provided by Shahzia Daya - Service Director - Legal and Democratic Services)

Financial

(a) Revenue

The application of capital receipts to finance transformational revenue costs will increase the prudential borrowing requirement of the authority. The additional debt financing costs of borrowing £5m is some £250k per annum.

(b) Capital

The application of capital receipts to finance transformational revenue costs will increase the prudential borrowing requirement of the authority, and reduce the capital financing options of future capital schemes.
(Financial advice provided by Jon Clayton (Corporate Accountant)

Land
Not applicable

Personnel
Not applicable

Appendices:
None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:
None