

# Flexible Use of Capital Receipts Strategy

## Purpose

This report provides background information with regards the statutory guidance on the flexible use of Capital Receipts and its application within this Council. As part of the finance settlement for 2016/17 the government announced new flexibilities allowing local authorities to use capital receipts received after 1 April 2016 to be used to fund transformational expenditure. This was extended in 2018/19 and again in August 2022 to extend the flexibility to receipts received up to 31 March 2025.

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 redevelopment and mitigates the financial pressures of the Council for the current and ensuing year.

The Council is developing and implementing a comprehensive transformation programme which will look at each major service to determine how demand can be mitigated and how the service can be delivered differently to achieve savings and improve performance. Each directorate will have its own transformation programme which will report into a new Corporate Transformation Board to oversee delivery. This new programme – Future Shape RBWM – is designed to ensure the Council has the required resources, infrastructure and governance in place to deliver service sustainability.

Although the Council has done – and is doing – service transformation, until now there has not been a coordinated programme in place and the required governance to oversee delivery, manage resource and mitigate risks. The new Future Shape RBWM programme is intended to rectify this.

The intention is to use some of the additional income generated by these transformations to pay down the borrowing required to fund them within 5-10 years, meaning that they will deliver long term benefit without leaving the Council with additional long-term cost.

## 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, 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 revenue 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.

The Secretary of State for Communities and Local Government has issued updated guidance giving local authorities greater freedoms with how capital receipts could be utilised. This Direction allows for the following expenditure to be treated as capital:

- I. expenditure incurred by the Authorities 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;  
and

- II. is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.

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.

There is no prescribed format for the strategy, the underlying principle is to support councils to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of transformational projects.

The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy should include a list of each project which plans to make use of the capital receipts flexibility, together with the expected savings that the project will realise. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

The Council's accounts to 2020/21 have been audited, signed off by the auditors and are now closed.

The Council's accounts for 2021/22, 2022/23 remain unaudited and open. As the Council has not previously published a Flexible Use of Capital Receipts Strategy, retrospective application, would appear to be ruled out by the provision "*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*".

### Capital receipts

The Guidance sets out "*that the disposal of assets by which the capital receipts are obtained must be disposals by the Council outside the "group" structure*"

Therefore, Capital receipts used under the direction must be from genuine disposals (qualifying disposals). That is, disposals where the authority does not retain an interest, directly or indirectly, in the assets once the disposal has occurred. Where the authority retains some exposure to the risks and rewards of the assets following disposal, it must not use any capital receipts from that disposal under the powers provided by the direction. Authorities should not be looking to exploit strategies to retain an interest in assets it has "disposed of" while using the sale proceeds to fund revenue costs.

At 31 March 2023, the Council had £7.2m of qualifying receipts, and we expect the available balance at March 24 to be £10m.

### Expenditure

Government has provided a definition of expenditure that qualifies for funding from capital receipts, as follows and in line with the direction above:

*"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*

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- *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 a project qualifies for the flexibility.”*

The Council intends to use capital receipts to fund the following transformation projects which will form part of the new Future Shape RBWM programme:

Table 1: Transformation projects to be funded by capital receipts during 2024/25.

Purpose of the expenditure	Revenue expenditure £,000s	Projected annual savings. £,000s
Savings in service budgets from overall transformation plan (not included in savings total below as already in MTFS)		7,478
Create debt and credit control processes	97.5	40
Additional credit control software	23	
Agresso (Finance system) process mapping	100	35
Ipads for polling stations	39	
Staff resource for CRM implementation	60	
Staff resource for Networks and Infrastructure projects	50	10
Scoping, research, process mapping etc for CS transformation	250	60
Waste Strategy Review and service redesign	80	61
ASC programme manager	60	
Insourcing Adult Social Care services	198	150
Staff resource for Adult Social Care Mosaic project	242	
Project Officer, school transport and delivery	75	
Capital Project Officer, connected care and foster carer project	90	
Project Officer, residential home and supported lodgings	10	
Remodelling CIN work to reduce social work agency spend	20	
Early intensive intervention programme in children’s care	80	
Project Officer, preparing for adulthood / transitions	60	
Development of Educational Psychology trading arm	107	107
Legal Services delivery model review	200	125
RBWM programme manager	150	
Project Officer, Place transformation programme	60	
Project Officer, Place transformation programme	60	
Asset optimisation review	60	
<b>Total</b>	<b>1,929.5</b>	<b>738</b>

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

RBWM has an ambitious transformation programme – Future Shape RBWM - outlined in the budget papers which is expected to deliver £7.5m of savings in the 2024/25 budget and requires a great deal of change to happen very quickly. In accordance with that, the majority of the expenditure listed above are project and programme managers to run and report on the projects, ensuring that they stay on track and on budget.

Where there is a saving attached to the line item, it's an additional expected saving not included in the existing budget. Where there is no saving listed, the cost is connected to the £7.5m efficiency and transformation programme included in the budget but isn't showing a saving here to avoid double counting the benefit.

The table above clearly demonstrates that, even including the expenditure linked to the existing programme, the costs of transformation are outweighed by the long-term benefit to the revenue budget which, even where savings may not be realised for 1-2 years, provides very quick payback.

Savings have been noted as the maximum expected recurring revenue saving.

### Strategy Management

For each financial year, a local authority must prepare a Flexible use of Capital Receipts Strategy (“the Strategy”).

This Strategy does not need to be a separate document, and the requirement can be satisfied by including relevant documents within the Annual Budget documents or as part of the Mid-Term Financial Plan (or equivalent).

The Strategy will be monitored throughout the financial year as part of regular budget monitoring arrangements and be reported accordingly as part of the current quarterly budget monitoring reports to Cabinet. The Strategy may be updated and replaced as proposals are developed and expenditure is incurred.

It is a condition that the Council 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. 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.

Should the Council update its 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. However, details provided to the Secretary of State must include as a minimum:

- the amount of planned capitalisation using the flexibility for the relevant financial year.
- the purpose of the expenditure to be capitalised with a description of the associated projects;
- the amount of expenditure that was capitalised using the flexibility for the prior financial year; and
- the efficiency savings that are directly attributable to the use of the flexibility that were achieved for the prior financial year.

If any of this information is unavailable or unknown, the council must set this out with a description as to why it cannot be provided.

### **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.

The indicators that will be impacted by this strategy are set out below:

- Capital financing requirement increases by the amount of capital receipts utilised for identified revenue expenditure rather than using to reduce the amount of borrowing needed to fund capital expenditure.
- 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.