Annex 2 - Flexible Use of Capital Receipts Strategy

1.0 Flexible Use of Capital Receipts

1.1 In March 2016 the government produced Statutory Guidance on the Flexible Use of Capital Receipts. Proper accounting practices mean that capital receipts can only be used to support capital expenditure. However, the purpose of the guidance is to give flexibility as to the use of capital. In summary, the guidance allowed councils to use capital receipts from the disposal of property, plant and equipment assets received in the period 1 April 2016 to 31 March 2019 to fund revenue spending which is forecast to generate ongoing savings to an authority's net service expenditure.

1.2 The above initiative has subsequently been extended by the government for a further three years. Accordingly, capital receipts which have been received from 1 April 2016 to 31 March 2022 may now be used to fund revenue expenditure incurred during this period which is forecast to generate ongoing savings to the council's net service expenditure.

1.3 The guidance itself gives examples of the type of expenditure that can be funded from this source although it is not exhaustive. This includes:

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation.

- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.

A more comprehensive list is provided in section 2 - Guidance below.

1.4 This provides an opportunity for the council to invest in some significant projects during this period to embed efficiencies for future years. As previously reported, capital receipts are being used to fund (a) a Corporate Restructure that is being conducted by the Chief Executive (which will reduce the establishment costs of the council, delivering long-term savings), and (b) delivering Digitally Enabled Services (which will reduce costs and also improve customer service). Hence, the use of capital receipts will result in significant ongoing savings for the council. Notification was duly given by the council to the Department for Communities and Local Government (DCLG).

1.5 It was previously estimated that these projects would produce significant ongoing savings, as set out below.

Project Name	Project Description	Estimated Qualifying Expenditure £'000	Estimated Annual Savings £'000
Corporate Restructure	To review and update the organisational structure to deliver efficiencies	800	814
Digitally Enabled Services	To adopt digital technology to enable new ways of working	200	50

1.6 As reported to Cabinet on 26 July 2018 in the 2017-18 Provisional Outturn and Annual Treasury Management Review, during 2017-18 expenditure on the Corporate Restructure and Digitally Enabled Services projects was £287k and £32k respectively, and the remaining budgets of £513k for Corporate Restructure and £168k for Digitally Enabled Services (giving £681k in aggregate) were carried forward into 2018-19.

1.7 The following 2019-20 Treasury Management Strategy Statement Prudential Indicator will be impacted by the use of £681k of General Fund capital receipts:

> **Ratio of Financing Costs to Revenue Stream**: The 2019-20, 2020-21 and 2021-22 General Fund ratios (to one decimal place) increase by 0.0%, 0.1% and 0.0% respectively.

This is calculated on the assumption that the flexible use of capital receipts does not increase the council's revenue stream but does increase the council's funding requirement by £681k.

1.8 As the above projects continue to progress, further updates to this strategy will be presented.

1.9 Cabinet is recommended to consider and agree this revised Capital Receipts Strategy and recommend it to council.

2.0 Flexible Use of Capital Receipts – Guidance

To support local authorities deliver more efficient and sustainable services, under the Local Government Act 2003 section 15(1) the government allows local authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects (revenue reform costs) and issued revised guidance in March 2016 and subsequently.

Accordingly the Council can treat as capital expenditure, any expenditure 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 for any of the public sector delivery partners.

Revenue Reform Costs must be properly incurred by 31 March 2022 and can only be met from capital receipts which have been received from 1 April 2016 to 31 March 2022. Revenue Reform Costs cannot be financed from (i) Right to Buy receipts, (ii) pre 1 April 2016 capital receipts, and/or (iii) borrowing.

Revenue Reform Costs that generate ongoing savings may be funded from the Council's capital receipts for the following:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. 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;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue; and
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery.

On a project by project basis details of the expected savings/service transformation will be provided.

The impact on the Council's Prudential Indicators from Revenue Reform Costs being treated as capital expenditure is:

- Estimated and actual capital expenditure will increase by the amount of the Revenue Reform Costs;
- Balance Sheet resources (capital receipts) will decrease by the amount of the Revenue Reform Costs;
- The 'incremental impact on capital investment decisions on the band D council tax' and the ratio of 'financing costs to net revenue stream' may increase or decrease depending on whether the reduction in treasury interest income from the utilisation of capital receipts is greater or less than any relevant revenue savings/enhancements achieved from successful implementation of the reform project(s).

Effect

Utilisation of capital receipts to fund expenditure that would usually be funded from revenue resources diverts the receipts available for re-investment in existing assets or the creation of new ones.

The Council is using capital receipts to fund the redundancy costs of the corporate restructure and the costs of digitally enabled services.