

<b>MIDDLESBROUGH COUNCIL</b>	
------------------------------	--

<b>Report of:</b>	Director of Finance and Transformation (s151 Officer)
-------------------	---

<b>Relevant Executive Member:</b>	Executive Member for Finance
-----------------------------------	------------------------------

<b>Submitted to:</b>	Council
----------------------	---------

<b>Date:</b>	26 March 2025
--------------	---------------

<b>Title:</b>	Flexible Use of Capital Receipts (FUoCR) Strategy – 2025/26
---------------	---

<b>Report for:</b>	Decision
--------------------	----------

<b>Status:</b>	Public
----------------	--------

<b>Council Plan priority:</b>	All
-------------------------------	-----

<b>Key decision:</b>	Yes
----------------------	-----

<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000
-------------	--

<b>Subject to call in?:</b>	No
-----------------------------	----

<b>Why:</b>	Council decision
-------------	------------------

<b>Executive summary</b>
<p>Local authorities are ordinarily only able to utilise capital receipts from the sale of fixed assets for specific purposes, and this precludes the financing of revenue expenditure under s15(1) of the Local Government Act 2003 (as amended).</p> <p>However, from 2016/17 statutory regulations have allowed capital receipts to be used to finance eligible revenue expenditure in specific circumstances and subject to certain conditions. This is achieved through the adoption of a Flexible Use of Capital Receipts (FUoCR) Strategy that is required to be approved by Full Council and is overseen (but not approved) by the Ministry of Housing, Communities and Local Government (MHCLG).</p>

Eligible expenditure under the regulations relates to revenue expenditure which:

- is designed to generate ongoing expenditure savings, income generation, and/or more efficient delivery of services, and/or
- transforms service delivery to reduce costs/ reduce demand; and/or
- improves the quality-of-service delivery in future years.

The Council is required to deliver transformational change of its service delivery models to achieve financial sustainability over the period of the Medium-Term Financial Plan (MTFP) from 2025/26 to 2028/29, and the Council's Transformation Programme is an integral part of the Council's MTFP.

The transformation expenditure can only be financed by capital receipts given the low level of revenue reserves held by the Council. The FUoCR strategy therefore provides the funding solution for the revenue costs of transformation work to be funded from capital receipts generated from the review of assets as approved by the Executive in November 2023.

The FUoCR Strategy for 2025/26 sets out plans for up to £7.5m of expenditure linked to the Council's Transformation Programme to be incurred during 2025/26 to be funded by capital receipts in accordance with statutory regulations.

The Council is not permitted to apply flexible capital receipts to fund expenditure more than the sum set out in the approved FUoCR Strategy. However, the regulations enable the revision of the FUoCR strategy during the financial year to reflect an increase in the plan if it is approved by Full Council and notified to MHCLG.

The implications of the recommendations have been considered by the appropriate officers of the Council and are set out in the main body of the report.

## **1. Purpose**

- 1.1 This report proposes a Flexible Use of Capital Receipts (FUoCR) Strategy for the Council for 2025/26 that is subject to approval by Full Council and details the proposed individual projects which are planned to be funded from the flexible use of capital receipts in 2025/26 in accordance with the statutory regulations and guidance.
- 1.2 The report enables a range of transformation and efficiency plans to be progressed within the 2025/26 financial year to be funded from Usable Capital Receipts which are the primary source of funding available given the Council's usable revenue reserves are low.
- 1.3 The report sets out the approach that will be taken to optimise the FUoCR during 2025/26 in accordance with Statutory Guidance within the context of the Council realising a pipeline of cash receipts from the disposal of capital assets which was approved by Executive on 21 November 2023 as part of the recommendations of the Asset Review report.

## 2. Recommendations

That Full Council

- Approve the proposed Flexible Use of Capital Receipts (FUoCR) Strategy for 2025/26

## 3. Rationale for the recommended decision(s)

3.1 The FUoCR strategy is critical to enable the progression of Transformation Plans to deliver cost reduction and/or income generation that will contribute to reducing the spend and achieving financial sustainability over the period of the Council's Medium Term Financial Plan (MTFP) from 2025/26 to 2028/29.

## 4. Background and relevant information

- 4.1 The Council is required to deliver transformational change of its service delivery models to achieve financial sustainability over the period of the Council's MTFP from 2025/26 to 2028/29. The Council's Transformation Programme is an integral part of the MTFP, and necessary not only to deliver change but to reduce the overall cost of service delivery by providing financially sustainable services all within the cost envelope.
- 4.2 In the absence of sufficient revenue reserves to fund investment in transformation, the only source of funding available to the Council is the use of capital receipts from asset sales.
- 4.3 Local authorities are ordinarily only able to utilise capital receipts from the sale of fixed assets for specific purposes, mainly funding capital expenditure or repaying debt. This precludes the financing of revenue expenditure under s15(1) of the Local Government Act 2003.
- 4.4 However, from 2016/17 statutory regulations have allowed capital receipts to be used to finance revenue expenditure for specific purposes as detailed in Section 2 of Appendix 1 and subject to certain conditions. The current statutory direction applies to financial years from 1 April 2022 up to and including 31 March 2025. However the Government announced as part of the [Local government finance policy statement 2025 to 2026](#) that they would extend the flexible use of capital receipts to 31 March 2030. The Government also removed the restriction with respect to redundancy costs, imposed from April 2022, which limited the use of the flexibility to statutory redundancy costs only. This will support authorities in taking forward transformation and invest-to-save projects.
- 4.5 This is achieved through the adoption of a FUoCR Strategy which sets out any plans for eligible revenue expenditure to be incurred during the financial year to be funded by capital receipts in accordance with statutory regulations. The proposed FUoCR Strategy for 2025/26 is attached at Appendix 1 which includes details of the legislative framework, the use of flexible capital receipts in previous years, details of

monitoring of the Strategy and the impact on the prudential indicators from implementing the proposed Strategy as required by the statutory guidance.

- 4.6 The annual FUoCR Strategy is required to be approved by full Council as part of the budget and policy framework. A copy of the FUoCR Strategy, once approved by full Council is required to be shared with the Ministry of Housing, Communities and Local Government (MHCLG) to enable review and oversight (but not approval).
- 4.7 The Council can only apply capital receipts to fund eligible expenditure in accordance with the plans set out in the FUoCR strategy and cannot exceed the level of planned expenditure without formally reviewing and approving a revised strategy. Revisions can be made during the financial year subject to Full Council approval and are required to be notified to MHCLG.
- 4.8 The FUoCR strategy is critical to enable the development and implementation of Transformation plans that seek to improve the efficiency and effectiveness of services to the community and deliver the cost reduction and/or income generation that is required to achieve financial sustainability for the Council over the medium to longer term. The 2025/26 FUoCR Strategy sets out an estimate of investment requirements together with forecast savings over the period of the MTFP, that will be further updated as the Transformation Programme develops.
- 4.9 Work to develop business cases for service redesign in areas that will deliver further savings from 2025/26 onwards has been progressing and will continue to progress during 2025/26 and in future years and will be further reported to Executive on 30 April 2025 and at intervals throughout 2025/26 financial year to consider and recommend to Full Council approval of any revisions to the FUoCR Strategy as required by regulations.
- 4.10 Most of the transformation expenditure in 2025/26 is planned to be met from capital receipts under the FUoCR Strategy, given that the Council’s low revenue reserves are insufficient to fund the investment required. Limited expenditure that does not qualify for capitalisation under the Strategy will be met from the Council’s Change Fund.

**5 Other potential alternative(s) and why these have not been recommended**

- 5.1 If the revised FUoCR Strategy is not approved, then projects and initiatives to deliver cost reduction and income growth will either not be able to progress at all or will be constrained by limited revenue resources in the Change Fund.

**6 Impact(s) of the recommended decision(s)**

Topic	Impact
Financial (including procurement and Social Value)	The Flexible Use of Capital Receipts (FUoCR) Strategy is a core element of the Council’s budget and policy framework that is approved by Council annually. The ability to capitalise eligible revenue expenditure in accordance with the regulations set out in the main body of the report, provides a

	<p>mechanism through which the Council can invest in transformation and efficiency initiatives to achieve financial recovery and resilience over the short to medium term</p> <p>The adoption of the proposed FUoCR Strategy for 2025/26 will enable the Council to use up to £7.5m of capital receipts in 2025/26 to contribute towards the cost of transformation within the Council.</p>
<p>Legal</p>	<p>Local authorities are ordinarily only able to utilise capital receipts from the sale of fixed assets for specific purposes which is normally restricted to either funding capital expenditure or repaying debt, 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 receipts cannot usually be used to fund revenue expenditure under s15(1) of the Local Government Act 2003 (as amended).</p> <p>The Secretary of State however is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure and therefore funded by capital receipts. From 2016/17 the Ministry of Housing, Communities and Local Government (MHCLG) implemented a time limited relaxation to the regulations under the Local Government Act 2003 Sections 16(2)(b) and 20: Treatment of Costs as Capital Expenditure. This allows capital receipts to be used to finance revenue expenditure in specific circumstances and subject to certain conditions. The current statutory direction applies to financial years from 1 April 2022 up to and including 31 March 2025.</p> <p>However the Government announced as part of the <a href="#">Local government finance policy statement 2025 to 2026</a> that they would extend the flexible use of capital receipts to 31 March 2030. The Government also removed the restriction with respect to redundancy costs, imposed from April 2022, which limited the use of the flexibility to statutory redundancy costs only.</p> <p>As this is a budget and policy framework matter, it is for Full Council to approve it in accordance with s.18.9(a) Financial Procedure Rules of the Council's Constitution.</p>
<p>Risk</p>	<p>This report forms an element of the Council's budget and policy framework which underpins the priority to deliver a legally balanced budget and sustainable medium term financial plan.</p>

Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report.
Data Protection	There are no applicable issues to consider within this report.

### Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
If approved by Council on 26 March 2025 the Flexible Use of Capital Receipts Strategy for 2025/26 will be adopted and notified to MHCLG	Director of Finance and Transformation (s151 Officer)	31/3/25
Regular monitoring of the Flexible Use of Capital Receipts Strategy for 2025/26 will take place throughout 2025/26 as part of the current quarterly budget monitoring reports to Executive, with any amendments required to the plans contained in the Strategy as proposals are developed and expenditure is incurred being reported to Executive and approved by Council and notified to MHCLG as appropriate.	Director of Finance and Transformation (s151 Officer)	30/6/26

### Appendices

1	Flexible Use of Capital Receipts Strategy 2025/26
---	---

### Background papers

Body	Report title	Date
Department for Levelling Up, Housing & Communities (DLUHC)	Flexible use of capital receipts direction: local authorities <a href="https://publishing.service.gov.uk">Direction - Flexible use of capital assets (publishing.service.gov.uk)</a>	2/8/22
Department for Levelling Up, Housing & Communities (DLUHC)	Statutory Guidance on the Flexible Use of Capital Receipts (updated August 2022) <a href="https://www.gov.uk">Guidance on the flexible use of capital receipts (updated August 2022) - GOV.UK (www.gov.uk)</a>	2/8/22

Council	Flexible Use of Capital Receipts Strategy 2021/22	20/10/21
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23	23/2/22
Executive	Revenue and Capital Budget – Year-End Outturn position 2021/22 report	14/6/22
Council	Flexible Use of Capital Receipts Strategy 2022/23	7/9/22
Executive	Children’s Services Financial Improvement Plan	14/2/23
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2023/24	27/2/23
Executive	Revenue and Capital Budget – Year-End Outturn position 2022/23 report	20/6/23
Executive	Asset Review	21/11/23
Executive	Flexible Use of Capital Receipts Strategy – 2023/24 Refresh	21/11/23
Council	2024/25 Revenue Budget, Medium Term Financial Plan, Council Tax setting, and Treasury Management Strategy 2024/25	8/3/24
Council	Approach to Transformation of Middlesbrough Council	27/3/24
Council	Transformation of Middlesbrough Council	24/4/24
Executive	2023/24 Revenue and Capital Outturn and development of MTFP	26/6/24
Executive	Customer Strategy	5/2/25
Council	2025/26 Revenue Budget, Medium Term Financial Plan, and Council Tax setting	19/2/25
Council	Prudential Indicators and Treasury Management Strategy Report – 2025/26	19/2/25

**Contact:** Andrew Humble – Director of Finance & Transformation (s151 Officer)  
**Email:** andrew\_humble@middlesbrough.gov.uk