

Appendix 1

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY 2025/26

1. Summary

- 1.1 The Council is required to deliver transformational change of its service delivery models in order to achieve financial sustainability over the period of the Council's Medium Term Financial Plan (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.
- 1.2 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.
- 1.3 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.
- 1.4 However from 2026/17 statutory regulations have allowed capital receipts to be used to finance revenue expenditure for specific purposes as detailed in Section 2 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.
- 1.5 This is achieved through the adoption of a Flexible Use of Capital Receipts (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.
- 1.6 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).
- 1.7 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.

- 1.8 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 in order 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.
- 1.9 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 future years and will be further reported to Executive on 30 April 2025 and at intervals throughout 2025/26 financial year in order to consider and recommend to Full Council approval of any revisions to the FUoCR Strategy as required by the regulations.
- 1.10 The majority of 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 Change Fund.

2. Legislative framework

- 2.1 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).
- 2.2 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.
- 2.3 The Secretary of State for Communities and Local Government issued a Direction in March 2016 providing 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 gave local authorities greater freedoms to use capital receipts to finance expenditure, initially up until 2018/19. This allowed local authorities to treat qualifying expenditure on transformation projects as capital expenditure and to fund it from capital receipts received after April 2016.
- 2.4 The direction allows authorities to use the proceeds from asset sales to fund the revenue costs in specific circumstances where projects:
- will reduce costs, and/or
 - increase revenue income, and/or
 - support a more efficient provision of services.

- 2.5 Local authorities are only permitted to use the flexible use of capital receipts concession from a 'qualifying disposal' of property, plant and equipment assets received in the years in which this flexibility is offered under the direction.
- 2.6 'Qualifying expenditure' is defined as '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. The Statutory Guidance provides some examples of qualifying expenditure.
- 2.7 There have been number of extensions to the scheme since 2018/19 by revised statutory directions and in 2022 new restrictions were introduced as follows :
- a. that capital receipts obtained must be from disposals by the local authority to an entity outside the local authority's group structure. The intent of this condition is that capital receipts which are to be used by authorities under the flexibilities afforded by the direction, should be from genuine disposals of assets by the authority. Where an authority retains some control of the assets, directly or indirectly, and retains exposure to the risks and rewards from those assets, the disposal does not give rise to a capital receipt that can be used in accordance with the direction.
 - b. authorities were also restricted from funding discretionary redundancy payments, i.e., those not necessarily incurred under statute. Statutory payments that can be claimed through the flexible use of capital receipts were statutory redundancy pay (based on the capped weekly wage for statutory payments of £643 and a maximum 30 weeks as per the statutory guidance) and pension strain costs – not including any discretions, added years etc.
- 2.8 The [Local government finance policy statement 2025 to 2026](#) published by MHCLG in November 2024 extended the flexible use of capital receipts to 2030. The government also removed the restriction with respect to redundancy costs imposed from April 2022 (as detailed in 2.7 b. above), 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.
- 2.9 Authorities wishing to take advantage of the flexibility are required to annually prepare a "Flexible Use of Capital Receipts" (FUoCR) Strategy to be approved by Full Council. This requirement can be satisfied by including relevant documents within the Annual Budget documents or as a separate report. As a minimum, the Strategy should list each project for which it is proposed to make use of the capital receipts flexibility and that on a project-by-project basis, details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years.
- 2.10 Since 2022/23 local authorities must send details setting out their planned use of the flexibility in advance of use for each financial year to MHCLG by submitting via

the MHCLG Delta system. This condition can be met by sending the authority's own strategy documents, provided they contain the detail asked for in the direction. This is not an approval process, but the information must be sent to ensure transparency and allow proper monitoring by central government.

- 2.11 Since 2022/23 the Strategy is required to contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.
- 2.12 The Statutory Guidance allows local authorities to update their Strategy during the year and must notify MHCLG to enable central Government to keep track of planned and actual use of the flexibility. Full Council must approve the revised plan.
- 2.13 The amount of expenditure capitalised in the financial year must not exceed the amount set out in the plan, including any updated plans, provided to the MHCLG. This is to allow central Government to keep track of planned use of the flexibility for national accounts purposes.

3. Use of Flexible Capital Receipts in previous years

- 3.1 It is a requirement of the FUoCR guidance, that authorities must include details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.

Middlesbrough Council implemented a FUoCR Strategy for the first time in 2021/22 and a report was approved by Full Council on 20 October 2021.

2021/22

- 3.2 The FUoCR Strategy for 2021/22 approved by Full Council on 20 October 2021 included proposed projects along with estimated costs and potential savings. Progress against the approved Strategy for 2021/22 was monitored throughout the financial year as part of regular budget monitoring arrangements and reported accordingly as part of the current quarterly budget monitoring reports to Executive, along with any updates to the Strategy as proposals were developed and expenditure was incurred. The final statement of expenditure on projects to transform services that were funded through flexible use of capital receipts for 2021/22 and the associated estimated annual revenue savings or future cost avoidance, was reported as part of the Revenue and Capital Budget – Year-End Outturn position 2021/22 report to Executive on 14 June 2022, and was also shown in the Strategy for 2022/23.
- 3.3 Entries were made in the Council's accounts in 2021/22 for these having due regard to the Local Authority Accounting Code of Practice, including the effect on the Council's Investment Strategy.

2022/23

- 3.4 The Strategy for 2022/23 was approved by Full Council on 7 September 2022. The report summarised the projects intended to transform services and proposed to be funded through the flexible use of capital receipts for 2022/23. These totalled approximately £2.7m along with estimated projected costs and associated estimated

annual revenue savings or future cost avoidance. In some cases, there is a clear link between a project and the realisable financial benefit. In other cases, that link is less clear and the project or additional resource contributes to enabling savings or costs avoidance in other areas or provides a wider benefit, which would not otherwise be realised.

- 3.5 Delivery against the 2022/23 Strategy was reported through quarterly monitoring reports and the final year-end position against the Strategy was reported as part of the Revenue and Capital Budget – Year-End Outturn position 2022/23 report to Executive on 20 June 2023.
- 3.6 Entries were made in the Council's accounts for these having due regard to the Local Authority Accounting Code of Practice, including the effect on the Council's Investment Strategy.

2023/24

- 3.7 The planned use of flexible capital receipts in 2023/24 was set out in the budget and MTFP report approved by Council on 27 February 2023. The plan incorporated £3m of expenditure on transformation and other eligible expenditure within an overall MTFP strategy that forecast flexible receipts in year in excess of £9m, the balance of receipts assumed to be used to finance the capital programme.
- 3.8 The main emphasis of the FUoCR Strategy in 2023/24 was associated with expenditure within the Children's Financial Improvement Plan targeted to realise savings in expenditure and cost avoidance arising from a range of projects.
- 3.9 The estimates of transformational expenditure were made on a prudent basis, and it was noted that there may be a need to review and revise the original plan dependent upon whether the initial planned projects were delivered given the significant transformation work required within Children's Services which presented the single biggest risk to the Council's financial sustainability.
- 3.10 It was noted that if it was necessary to increase the use of capital receipts on a flexible basis during 2023/24 above that contained in the Strategy, that an amended plan and strategy would be submitted for approval by Full Council and notified to DLUHC (now MHCLG) as required by the FUoCR guidance.
- 3.11 A number of schemes within the original plan for 2023/24 for £3m approved by Full Council in February 2023 did not progress as originally intended and a number of new projects were added for which the expenditure qualifies under the regulations for flexible use of capital receipts funding.
- 3.12 In order to reduce the forecast overspend, it was necessary for the Council to develop implement a further range of transformational and efficiency plans to secure cost reduction and income growth within 2023/24 and into 2024/25 and future years, and therefore a revised FUoCR strategy for 2024/25 was approved by Full Council on 17 January 2024 which increased the potential eligible expenditure to £4.3m subject to the realisation of sufficient capital receipts at 31 March 2024.
- 3.13 Progress against the 2023/24 Strategy was reported in the quarterly budget monitoring reports to Executive, and the final position was reported in paragraph 4.40

of the 2023/24 Revenue and Capital Outturn and development of MTFP report to Executive on 26 June 2024. This showed a reduced level of capital receipts totalling £2.399m being sold and cash received by the Council at 31 March 2024. Therefore, in accordance with the approved Council policy, £2.399m of eligible revenue expenditure was funded by FUoCR and included in the capital programme, therefore reducing total revenue expenditure. Table 9 of the report summarised this with the detailed analysis of the application of FUoCR set out in Appendix 5.

- 3.14 Entries were made in the Council's accounts in 2023/24 for these having due regard to the Local Authority Accounting Code of Practice, including the effect on the Council's Capital Programme.

2024/25

- 3.15 The 2024/25 budget, MTFP, Capital Programme and Treasury Management Policy approved on 8 March 2024 set out the estimated investment required to deliver transformation and to meet the estimated cost of redundancies over the 3 year period of the MTFP. The total cost was estimated to be up to £26.7m over the period of which £13.7m related to 2024/25. The approved funding source was capital receipts in accordance with an approved FUoCR Strategy.
- 3.16 The FUoCR Strategy for 2024/25 was done in two phases with Phase 1 being approved by Full Council on 27 March 2024 as part of The Approach to Transformation of Middlesbrough Council report. This approved £4.827m of expenditure.
- 3.17 The FUoCR Strategy was revised as part of the Transformation of Middlesbrough Council report to Full Council on 24 April 2024. This report approved Phase 2 for the balance of the budget allocation of £8.873m with further programme investment expenditure of £4.256m, redundancy budget of £2.900m and the contingency budget of £1.717m.
- 3.18 Progress against the 2024/25 Strategy has been reported in the quarterly budget monitoring reports to Executive. The Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2024/25 report to Executive on 5 February 2025 highlighted that it is forecast that only £5.150m of the £13.7m planned expenditure would be incurred in relation to the Transformation Programme in 2024/25 and that £5.150m of eligible revenue expenditure is forecast to be funded by FUoCR in 2024/25.
- 3.19 The final year-end position against the Strategy will be reported as part of the Revenue and Capital Budget – Year-End Outturn position 2024/25 report to Executive in June 2025.

4. 2025/26 Transformation and FUoCR Strategy

- 4.1 The 2025/26 Revenue Budget, Medium Term Financial Plan, and Council Tax setting report approved on 19 February 2025 set out the estimated investment required to deliver transformation and to meet the estimated cost of redundancies over the 4 year period of the MTFP from 2025/26 to 2028/29. The total cost is estimated to be up to £21.550m over the period of which £7.500m relates to 2025/26. This is in addition

the £5.150m forecast expenditure in 2024/25 making a total of £26.700m for the period 2024/25 to 2028/29 for the Transformation Programme. The approved funding source is capital receipts in accordance with an approved FUoCR Strategy

- 4.2 **Table 1** below summarises the forecast expenditure from 2025/26 to 2028/29 and shows that it is anticipated that the amount of transformation expenditure in 2025/26 will be up to £5.000m (including ICT), with an estimate for redundancy costs of up to £1.750m, and a contingency budget of £0.750m, making a total of £7.500m in 2025/26.

Table 1 : Transformation Programme – to be funded by FUoCR Strategy

	Forecast Expenditure				
	2025/26	2026/27	2027/28	2028/29	TOTAL
Transformation Programme	£m	£m	£m	£m	£m
Transformation	3.500	3.500	3.000	0.750	10.750
ICT	1.500	1.500	1.500	-	4.500
Redundancy	1.750	1.000	1.000	-	3.750
Contingency	0.750	0.750	0.750	0.300	2.550
Total Transformation	7.500	6.750	6.250	1.050	21.550

- 4.3 **Table 2** below summarises planned transformation expenditure totalling £7.500m in 2025/26 to be funded from the 2025/26 FUoCR Strategy with further details being provided in **Annex 1**.

Table 2 : Planned transformation expenditure in 2025/26 to be funded by FUoCR

	FUoCR 2025/26 £m
Programme Costs: Adult Social Care	0.644
Programme Costs: Children's Social Care	1.311
Programme Costs: Customer	0.733
Programme Costs: Target Operating Model / Enabling Services	0.499
Programme Costs: Further Planned Expenditure	2.563
Redundancy Costs	1.750
Total Planned Transformation Expenditure 2025/26 funded by FUoCR	7.500

- 4.4 In some cases there is a direct link between a project and the realisable financial benefit, however in others it is difficult to quantify and the project contributes to enabling savings or costs avoidance in other areas or provide a wider benefit, which would not otherwise be realised; for example some enabling services and expenditure.
- 4.5 A number of transformation projects are in development. The Customer Strategy was approved by Executive on 5 February 2025 and a further report updating progress on the Transformation Programme and the Neighbourhoods Model will be presented to Executive on 30 April 2025.
- 4.6 It may be necessary for further revisions to the FUoCR Strategy to be submitted to Full Council throughout the 2025/26 financial year for approval of further allocations of this budget as business cases are developed.

- 4.7 The estimates of transformational expenditure have been made on a prudent basis, and it should be noted that there will be potentially other expenditure which will be incurred due to the significant transformation work that will be required within the Council that will be reflected in further phases of the FUoCR Strategy to be considered by Full Council during 2025/26.
- 4.8 Any increase in the use of capital receipts on a flexible basis during 2025/26 above that contained in this Strategy, will as per the Statutory Guidance, require an amended plan and strategy to be made and approved by Full Council, and notified to MHCLG.

Monitoring the Strategy

- 4.9 Delivery against the Strategy will be monitored throughout the financial year as part of the Transformation Programme governance arrangements and reflected in regular corporate budget monitoring arrangements and be reported quarterly to Executive including the realisation of cashable capital receipts. It should be noted that the final financing position on the Strategy will be determined as part of the accounts closure process at 31 March 2026.
- 4.10 The legitimacy of the use of the Strategy has been determined by the Council's s151 Officer to be in accordance with the statutory regulations.

The Prudential Code

- 4.11 The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed Strategy. The capital expenditure prudential indicators will be amended and approved as appropriate.
- 4.12 The indicators that will be impacted by this Strategy are set out in the Prudential Indicators and Treasury Management Strategy Report - 2025/26 approved by Council on 19 February 2025.