

## Appendix 10

### FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY 2026/27

#### 1. Summary

- 1.1 The Council needs to deliver transformational change of its service delivery models in order to achieve financial sustainability and improve outcomes to its customers over the period of the Council's Medium Term Financial Plan (MTFP) from 2026/27 to 2029/30 and in the longer term. 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 Whilst the level of the Council's reserves have improved in the last few years from that which existed in 2023/24 there are still not sufficient revenue reserves to fund investment in transformation without impacting on the medium to long term financial sustainability, and therefore 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 up to 31 March 2030.
- 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 2026/27 FUoCR Strategy sets out an estimate of investment requirements together with the estimated forecast savings where applicable 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 2026/27 onwards has been progressing and will continue to progress during 2026/27 and future years and will be further reported to Executive in March 2026 and at intervals throughout 2026/27 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 2026/27 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. Any expenditure that does not qualify for capitalisation under the Strategy (which will be limited in value) 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 and the subsequent amended legislation published on 26 March 2025 extended the flexible use of capital receipts to 31 March 2030. In this 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 the Secretary of State 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 the Secretary of State and 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 Secretary of State / 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 was reported in the quarterly budget monitoring reports to Executive. and the final position was reported in Table 9 in paragraph 4.38 of the 2024/25 Revenue and Capital Outturn report to Executive on 11 June 2025. This showed that a reduced level of £4.447m of eligible revenue expenditure was funded by FUoCR and included in the capital programme in 2024/25, therefore reducing total revenue expenditure. This was in comparison to the total estimate for 2024/25 of £13.700m approved by Council. Table 9 of the report summarised this by themes with the detailed analysis of the expenditure funded through FUoCR in 2024/25 within themes set out in Appendix 8, along with the link to budget savings where applicable.
- 3.19 Entries were made in the Council's accounts in 2024/25 for these having due regard to the Local Authority Accounting Code of Practice, including the effect on the Council's Capital Programme.

## **2025/26**

- 3.20 The 2025/26 Revenue Budget, Medium Term Financial Plan, and Council Tax setting approved by Full Council on 19 February 2025 set out the inclusion of transformation and redundancy expenditure which could be capitalised under the Flexible Use of Capital Receipts Strategy (FUoCR) of £7.500m in 2025/26 (as part of the planned £26.700m Transformation Programme from 2024/25 to 2028/29), and that the annual Flexible Use of Capital Receipts (FUoCR) Strategy would be presented to Council for consideration and approval in March 2025.
- 3.21 The FUoCR Strategy for 2025/26 was approved by Full Council on 26 March 2025. This set 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.
- 3.22 Progress against the 2025/26 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 2025/26 report to Executive on 4 February 2026 highlighted that it is currently forecast that only £5.694m of the £7.500m planned expenditure would be incurred in relation to the Transformation Programme in 2025/26 and that £5.694m of eligible revenue expenditure is forecast to be funded by FUoCR in 2025/26.
- 3.23 The Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report to Executive on 4 February 2026 also highlighted that two schemes totalling £9.500m that were previously within the Transformation element of the Capital Programme have been moved within the Capital Programme to the respective Directorates that will manage the schemes:
- £5.000m of investment in Neighbourhood Hubs to support the Neighbourhood strategy is now included within the Regeneration Directorate.
  - £4.500m of investment in ICT Infrastructure is now included within the Legal and Governance Services Directorate.
- 3.24 Whilst both schemes will still be funded from the £26.700m of capital receipts allocated to the Transformational Programme, due to the fact that they are just capital expenditure funded from capital receipts and not revenue expenditure they can no longer be funded through the FUoCR Strategy. The impact of this is that the total funds available for revenue funding through the FUoCR strategy will reduce to £17.200m. Of the £17.200m total, £4.447m was spent in 2024/25 with £5.694m forecast spend in 2025/26 leaving £7.059m for 2026/27 onwards.
- 3.25 The final year-end position against the Strategy will be reported as part of the 2025/26 Revenue and Capital Budget Outturn report to Executive in June 2026.

## **4. 2026/27 Transformation and FUoCR Strategy**

- 4.1 The Proposed Revised Capital Programme 2026/27 to 2029/30 in Annex 1 of Appendix 9 of this Council report sets out the inclusion of transformation and redundancy expenditure which could be capitalised under the Flexible Use of

Capital Receipts of £5.789m in 2026/27 (as part of the planned £26.700m Transformation Programme from 2024/25 to 2028/29), and this is included in the Flexible Use of Capital Receipts (FUoCR) Strategy for 2026/27 presented to Council for consideration and approval.

- 4.2 **Table 1** below summarises the forecast Transformation Programme from 2026/27 to 2027/28 and shows that it is anticipated that the amount of transformation expenditure/subject matter expertise in 2026/27 will be up to £3.169m, along with up to £1.020m specifically for the Neighbourhood theme, an estimate for redundancy costs of up to £0.200m and a contingency budget of £1.400m, making a total of up to £5.789m in 2026/27.

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

	Forecast Expenditure		
	2026/27	2027/28	TOTAL
Transformation Programme	£m	£m	£m
Transformation / Subject Matter Expertise	3.169	0.107	3.276
Neighbourhood	1.020	0.612	1.632
Redundancy	0.200	-	0.200
Contingency	1.400	0.551	1.951
<b>Total Transformation</b>	<b>5.789</b>	<b>1.270</b>	<b>7.059</b>

- 4.3 It is not currently expected that expenditure will be incurred on the Transformation Programme from 2028/29 onwards but this will subject to review in the future and may depend on whether there is any slippage /delays on the planned expenditure in 2026/27 and 2028/29 and but will be dependent on the level of capital receipts available.
- 4.4 **Annex 1** provides details of the planned transformation expenditure totalling £5.789m in 2026/27 to be funded from the 2026/27 FUoCR Strategy.
- 4.5 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.
- 4.6 A number of transformation projects are in development. A further report updating progress on the Transformation Programme will be presented to Executive in March 2026.
- 4.7 It may be necessary for further revisions to the FUoCR Strategy to be submitted to Full Council throughout the 2026/27 financial year for approval of further allocations of this budget as business cases are developed.
- 4.8 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 2026/27.



- 4.9 Any increase in the use of capital receipts on a flexible basis during 2026/27 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 the Secretary of State / MHCLG.

### **Monitoring the Strategy**

- 4.10 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 2027.
- 4.11 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**

- 4.12 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.
- 4.13 The indicators that will be impacted by this Strategy are set out in the Prudential Indicators 2026/27 to 2029/30 and Treasury Management Annual Strategy Report 2026/27 report to this Council.