

<b>Report of:</b>	Cllr. Barrie Cooper – Executive Member for Environment and Finance & Governance Ian Wright - Director of Finance
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<b>Submitted to:</b>	Council, 20 October 2021
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<b>Subject:</b>	Flexible Use of Capital Receipts Strategy
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## Summary

<b>Proposed decision(s)</b>
That the Council approves the proposed Flexible Use of Capital Receipts Strategy.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes – over the financial threshold (£150,000).	No	No

Contribution to delivery of the 2021-24 Strategic Plan		
People	Place	Business
The proposed Flexible Use of Capital Receipts Strategy is linked to the Council's Revenue Budget, Medium Term Financial Plan, and Capital Strategy and therefore plays a key role in ensuring that the Strategic Plan is delivered effectively.		

<b>Ward(s) affected</b>
None.

## **What is the purpose of this report?**

1. This report proposes a Flexible Use of Capital Receipts Strategy for the Council for approval by Full Council, and details the individual projects which are planned to be funded from the flexible use of capital receipts in accordance with the Guidance.

## **Why does this report require a Member decision?**

2. Full Council is required under the Statutory Guidance on the Flexible Use of Capital Receipts to approve the Council's Flexible Use of Capital Receipts Strategy.

## **Report Background**

### **Introduction**

3. Local authorities are limited in their ability to utilise capital receipts (the disposal proceeds from the sale of fixed assets or repayment of loans for capital purposes). Statutory guidance issued under section 15(1) of the Local Government Act 2003 by the Ministry of Housing, Communities and Local Government (as amended) generally precludes capital receipts being used to fund revenue expenditure and requires them to be applied to either fund capital expenditure or repay debt. The Act also requires local authorities to have regard to other guidance as issued or directed by the Secretary of State – this currently includes the following guidance issued by the Chartered Institute of Public Finance and Accountancy [CIPFA]:
  - The Prudential Code for Capital Finance in Local Authorities; and
  - The Code of Practice on Local Authority Accounting.
4. The Spending Review 2015 included a relaxation to the above regulations allowing the use of capital receipts for a limited period, between 2016/17 and 2018/19, to fund revenue expenditure “that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or improve the quality of service delivery in future years”. This announcement was implemented by the issuing of regulations in March 2016. The period over which these amended regulations applied was extended for a further 3 years to 2021/22 in the 2018/19 Local Government Finance Settlement.

### **The Guidance**

5. The guidance on the use of capital receipts flexibility was issued by the Secretary of State under section 15(1) of the Local Government Act 2003, and authorities are therefore required to have regard to it. The Guidance specified that;
  - Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
  - Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
  - The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure.
  - In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.
6. Each Council is also required to prepare a "Flexible Use of Capital Receipts Strategy" to be approved by Full Council. Each authority should disclose the individual projects that will be funded or part funded through capital receipts flexibility to full Council or the equivalent. This requirement can be satisfied as part of the annual budget setting process, through the Mid-Term Financial Plan or equivalent, or for those authorities that sign up to a four year settlement deal, as part of the required Efficiency Plan.
  7. The Guidance recommends that the Strategy setting out details of projects to be funded through flexible use of capital receipts be prepared prior to the start of each financial year. Failure to meet this requirement does not mean that an authority cannot access the flexibility in that year. However, in this instance, the Strategy should be presented to Full Council or the equivalent at the earliest possible opportunity.
  8. The Guidance allows local authorities to update their Strategy during the year. However, if they do so they will be required to notify DCLG. This is to allow central Government to keep track of planned use of the flexibility for national accounts purposes.
  9. As a minimum, the Strategy should list each project that plans 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. In addition, the Strategy should 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. The Strategy may also include any other matters considered to be relevant.

### **Examples of qualifying expenditure**

10. The Guidance provides a definition of expenditure that qualifies to be funded from the capital receipts flexibility. 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 transform service

delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

11. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure
12. Within this definition, there are a wide range of projects that could generate qualifying expenditure. The key determining criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility. The Guidance provides the following list of examples of projects, but makes it clear that these are only examples and the list is not prescriptive:
  - 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 – this could include an element of staff training;
  - Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others);
  - Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

## **The Council's Proposals**

13. When the Council set its 2021/22 Budget in February 2021 it was envisaged that the medium term impacts of the Covid-19 pandemic would be becoming clear by the next point of review of the Council's Medium Term Financial Plan (MTFP) in Autumn 2021, and that the long term arrangements for Local Government financing would be understood.
14. The continuing impact of the Covid-19 pandemic has meant that a long-term solution to Local Government funding has not yet been forthcoming and that the Council's future costs and income have become more uncertain. In the opinion of the Director of Finance, in his role as S151 Officer, it is therefore prudent at this point in time to increase the revenue reserves held by the Council as insulation against any future unexpected financial pressures.
15. The Council has in the past not adopted a Flexible Use of Capital Receipts Strategy, however using the Flexible Use of Capital Receipts Strategy in 2021/22 allows the Council to increase its revenue reserves at this time of high financial uncertainty with minimal impact on the Council Tax payer. When a clear medium term picture for Local Government funding and expenditure is available, the Director of Finance will review the level of reserves required and any excess identified could then be re-invested in assets and services for the town.
16. Due to the ongoing Children's Services Ofsted Improvement Plan work the adoption of such a Strategy will help support the significant and continued transformation work taking place within the Council, which will deliver improvement and efficiencies.
17. In the future, if legislation permits, a Flexible Use of Capital Receipts Strategy will be included within the budget report presented to Full Council in February each year.
18. The schedule below presents the projects to transform services that are proposed to be funded through flexible use of capital receipts for 2021/22 along with the estimated projected costs, and the associated estimated annual revenue savings or future cost avoidance. 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.

Project	Further Details	Estimated Projected Investment Required 2021/22 £000	Estimated annual savings by end of 2022/23 £000
Children's Services	<b>Funding for transformation of service and Ofsted Improvement Plan to improve services and outcomes</b>		
	Specialist agency teams in Referrals & Assessments to improve the "front door model"	1,130	Cost avoidance
	Specialist agency team examining placements in order to reduce high cost placements	565	1,040
	Workforce remodelling - experienced social worker recruitment and retention / agency worker reduction strategy	15	735
	Transformation costs associated with increasing internal residential provision	300	521
	One-off transformation costs associated with improvements in practice to reduce future numbers of children looked after (includes professional fees, legal costs, increased S17 payments)	200	Cost avoidance
	Transformation of Children with Disabilities long-term packages of support to prevent young people entering care	60	520
	Ofsted Improvement Plan additional posts to drive improvement and transformation	1,811	Enabling
		4,081	2,816
Digital Transformation	One-off implementation costs related to the Digital Transformation Project	236	1,094
Management and Staffing Review	Service reconfiguration, restructuring or rationalisation of management and staff, where this leads to ongoing efficiency savings or service transformation	749	404
Organisational Development	Organisational Development upskilling linked to the Council's values	23	Enabling
HR System	Development of the Council's HR system	34	Enabling
Project Support for Transformation Projects	Support for the transformation across the Council	67	Enabling
<b>TOTAL</b>		<b>5,190</b>	<b>4,314</b>

## Monitoring the Strategy

19. 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 Executive. The Strategy may be updated and replaced as proposals are developed and expenditure is incurred.
20. The legitimacy of the use of the Strategy will be determined by the Council's s151 Officer in order to ensure that it meets the requirements set out by the Secretary of State.

## **The Prudential Code**

21. 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.
22. The indicators that will be impacted by this Strategy are set out below:
  - Capital financing requirement increased by an estimated £5.190m as these capital receipts were intended to support schemes within the existing Investment Strategy that are now budgeted to be financed by prudential borrowing. Schemes financed by prudential borrowing are reflected within the prudential indicators as set out within the Treasury Management Strategy and included as part of the budget.
  - 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. The current indicative cost of borrowing £5.190m in 2021/22 is approximately £208,000 p.a.
23. The prudential indicators show that this Strategy is affordable and will not impact on the Council's operational boundary and authorised borrowing limit. However, this will need to be closely monitored as part of the current quarterly budget monitoring reports to Executive.
24. The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding the projects within the Council's Statement of Accounts.

## **What decision(s) are being asked for?**

25. That the Council approves the proposed Flexible Use of Capital Receipts Strategy.

## **Why is this being recommended?**

26. To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation, and agreed corporate financial regulations. The approach set out within the report will help the Council maximise the use of financial resources available, while ensuring that there is a minimum impact on the level of service delivered to the public or on the Council Tax payer.

## **Other potential decisions and why these have not been recommended**

27. Not Applicable.

## **Impact(s) of recommended decision(s)**

### ***Legal***

28. Full Council is required under the Statutory Guidance on the Flexible Use of Capital Receipts to approve the Council's Flexible Use of Capital Receipts Strategy.

### ***Financial***

29. The adoption of the proposed Flexible Use of Capital Receipts Policy will enable the Council to use an estimated £5.190m of capital receipts in 2021/22 to contribute towards the cost of transformation within the Council, in particular with respect to the Children's Services Ofsted Improvement Plan.
30. The Council's capital financing requirement will be increased by an estimated £5.190m as these capital receipts were intended to support schemes within the existing Investment Strategy that are now budgeted to be financed by prudential borrowing. The current indicative cost of borrowing £5.190m in 2021/22 is approximately £208,000 p.a.

### ***Policy Framework***

31. The revenue and capital budgets form part of the Council's Policy Framework and as such must be agreed by Full Council.

### ***Equality and Diversity***

32. No negative differential impact on diverse groups and communities is anticipated from the adoption of the Flexible Use of Capital Receipts Strategy.

### ***Risk***

33. The MTFP has been reviewed to ensure that the correct assumptions are made in the MTFP and that this will not result in a funding gap requiring further savings to be made (08-059).
34. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to Executive on a quarterly basis as part of the Strategic Plan 2021-24 quarterly progress reports.

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

35. If approved, the proposed Flexible Use of Capital Receipts Strategy will be adopted, and the capital expenditure prudential indicators will be amended and approved as appropriate.

## **Appendices**

None



## Background papers

March 2016	Department for Communities and Local Government	Statutory Guidance on the Flexible Use of Capital Receipts (updated) <a href="#">Statutory Guidance on the Flexible Use of Capital Receipts (updated) (publishing.service.gov.uk)</a>
6/2/18	Ministry of Housing, Communities & Local Government	Final local government finance settlement 2018 to 2019.  Flexible use of capital receipts direction: local authorities <a href="#">Local authorities direction.pdf (publishing.service.gov.uk)</a>
24/2/21	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
7/9/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22

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