Classification: Open	Decision Type: Non-Key

Report to:	Overview & Scrutiny – 9th February 2023 Cabinet – 15th February 2023 Council – 22nd February 2023
Subject:	Flexible Use of Capital Receipts Strategy 2023/24
Report of	Cabinet Member for Finance and Communities

Summary

The Secretary of State for Housing, Communities and Local Government issued guidance with effect from the 1st April 2016 that allowed Local Authorities dispensation to use capital receipts to support revenue transformation projects and expenditure that would deliver long term and future savings. However, in order to do so the authority must approve in advance of the financial year a strategy stating that it intends to do so and what those capital receipts will be used for.

Recommendation(s)

Overview and Scrutiny Committee is asked to:

- Note the report.
- Consider whether they wish to make any recommendations to Cabinet on the content of this report.

Cabinet is asked to approve and commend to Council

- The Flexible use of Capital Receipts Strategy 2023/24.

Reasons for recommendation(s)

The strategy needs to be approved in advance of the financial year and offers the Council greater flexibility over its use of resources.

Alternative options considered and rejected

The Council could choose not to adopt this strategy and continue to retain all capital receipts for future capital expenditure but this strategy offers greater flexibility of the Council's resources to support transformation and deliver future revenue savings.

1. **Background**

The proposals within this Flexible use of Capital Receipts Strategy have been prepared based on a capitalisation direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of Costs as Capital Expenditure.

2. **The Direction**

2.1 The Direction issued by the Secretary of State under Sections 16(2)(b) of the Local Government Act in relation to the flexible use of capital receipts specifies that Local Authorities can treat revenue expenditure as capital which:

"is incurred by the Authority 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".

"is properly incurred by the Authority for the financial years that begin on 1 April 2016 to 1 April 2021." This has since been extended for a further 3 years and is now available for financial years that begin 1st April 2022, 2023 and 2024".

2.2 It is a condition of the Secretary of State's direction that the flexible use of capital receipts in accordance with the direction only applies to capital receipts which have been received in the years to which the direction applies.

2.3 When applying the direction, Authorities are required to have regard to Guidance on Flexible Use of Capital Receipts issued by the Secretary of state under Section 15(1)(a) of the Act.

2.4 In using the flexibility, the Council will have due regard to the requirements of the Prudential Code and to the CIPFA Local Authority Accounting Code of Practice.

2.5 The Council is also required to prepare a Flexible use of Capital Receipts Strategy before the start of the year to be approved by the Council – this is that Strategy

3 **The Council's Proposals**

The Guidance sets out examples of qualifying expenditure which includes "funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation" and it is for this purpose that the Council is proposing to use Capital Receipts in 20232/24. In line with this Strategy and the Council's overall Financial Strategies, the following areas are proposals for the use of this directive but it should be noted that each will be considered at the time at which they arise in terms of the best use of the capital receipt in terms of offering greatest return.

- Subject to the approval of another report on this agenda to fund a contribution to the costs of the refurbishment of 3 Knowsley Place to accommodate the move of Pennine Care Foundation Trust. This will facilitate the Council disposing of Humphrey House which requires significant capital investment and does not meet energy efficiency standards, thereby incurring significant energy costs. This will also release a prime brownfield site in the Town Centre. The scheme was originally proposed for within the 2022/23 financial year.

- There are also a number of opportunities within the property and estates portfolio for significant savings in future years. Work is ongoing to determine the resource requirements to realise these savings which may require ICT enabled transformation focusing on process automation, operational efficiency and improved data quality.

- Work is also ongoing to rationalise the Council's administrative estate but it is recognised that in order to do this additional capacity and resource may be required to support with professional fees, survey costs and costs associated with the relocation of staff, which may also include a small team of staff to support this work.

- As part of the Council's wider savings proposals to close the 2023/24 financial gap a number of service reviews and restructures will be undertaken. It is recognised that costs associated with such reviews are permissible under this direction and may be considered at the time.

It is recognised that some of the Council's capital receipts have already been earmarked as match funding for the levelling up fund schemes but this does not apply to all of those which will be achieved through the accelerated land disposal programme. Therefore, this strategy only applies to those receipts that have not been earmarked as funding for any other proposed capital expenditure and therefore there is no anticipated additional impact on the Council's prudential indicators as set out in the Council's Treasury Management Strategy. The use of capital receipts as match funding for the levelling up schemes is included within the Council's capital programme report which is also on this agenda.

4 **2023/2024 Revenue Budget**

To support the significant and continued reconfiguration of the Council's Services to deliver the improvement and efficiencies set out in the Council's budget for 2023/24, it proposed that some of the associated one-off costs are funded from capital receipts. The legitimacy of this use will be determined by the Executive Director of Finance who is the Council's S151 Officer in order to ensure that they meet the requirements set out by the Secretary of State.

It should be noted that the Council is not relying upon the flexible use of capital receipts in order to balance its revenue budget in 2023/24 and will assess at the time of the receipt whether the receipt offers better value for money to support transformation or in order to support the capital programme and thereby reduce borrowing. This will be dependent upon both the Councils revenue position at the time and the cost of borrowing.

5 The Prudential Code

The Council has due regard to the requirements of the Prudential Code and the impact on its prudential indicators from the application of this Flexible Use of Capital Receipts Strategy. The latest Treasury management report for the Council identifies that Bury is currently under borrowed and the use of these capital receipts in this way will not negatively impact this position.

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 this scheme within the 2023/24 Statement of Accounts.

6 Monitoring the Strategy

Implementation of this Strategy will be monitored as part of regular financial reporting arrangements and any schemes funded from the flexible use of capital receipts will be included within the quarterly financial monitoring updates to Cabinet.

Links with the Corporate Priorities:

The "Enterprise" principle of the *Let's do it!* Strategy commits to driving innovation and transformation as an enabler of change. The flexible use of capital receipts will allow for resources to be accessed to enable transformation and change within the Council's existing resource envelope

Equality Impact and Considerations:

There are no equality implications associated with the principle of flexible use of receipts. As such an equality assessment (EA) has not been completed at this stage. An EA will, however, be undertaken for every proposal to use these funds to ensure that there is no disadvantage to any group and the Council takes every opportunity to further equality of opportunity

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Environmental Impact and Considerations:

There are no direct environmental impacts from the implementation of this strategy but the individual disposals which generate the capital receipts or the projects which utilise those capital receipts may have an environmental impact

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Assessment and Mitigation of Risk:

Risk / opportunity	Mitigation
No risks have been identified	

Legal Implications:
Capital receipts can only be used for specific purposes, 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 main permitted purpose is to fund capital expenditure and the use of capital receipts to support revenue expenditure is not permitted by the regulations.
The Secretary of State for Communities and Local Government issued guidance in March 2016 under section 15 (1) (a) of the 2003 Act, giving local authorities greater freedoms as to how capital receipts can be used to finance expenditure. This allows for the following expenditure to be treated as capital, "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 guidance requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects. It should include a list of each project which plans to make use of the capital receipts flexibility, together with the expected savings that the project will realise. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

Financial Implications:
The financial implications are included within the body of this report. This flexibility will allow for the use of capital receipts from the accelerated land disposal programme to be used to support transformation expenditure if required but each decision will be judged at the time as to which route offers best value for money.

Appendices:
There are no appended documents

Background papers:

Please list any background documents to this report and include a hyperlink where possible.

Government guidance on flexible use of capital receipts:
https://www.gov.uk/government/publications/final-guidance-on-flexible-use-of-capital-receipts/guidance-on-the-flexible-use-of-capital-receipts-updated

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning
ICT	Information Communication Technology

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