

This Report will be made public on 19 July 2022



Report Number **A/22/14**

To: Council
Date: 27 July 2022
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader and Portfolio Holder for Finance

SUBJECT: FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY 2022/23

SUMMARY: This report seeks Council approval regarding the Flexible Use of Capital Receipts Strategy for 2022/23 in accordance with the Department for Levelling Up, Housing and Communities latest guidance.

REASONS FOR RECOMMENDATIONS:

- a) The Council is required to approve a strategy for each year it intends to apply the Flexible Use of Capital Receipts guidance which outlines how it intends to use these receipts to meet relevant expenditure and the impact this will have on the Prudential Indicators for capital expenditure.

RECOMMENDATIONS:

1. To receive and note Report C/22/14.
2. To approve the Flexible Use of Capital Receipts Strategy for 2022/23.

1. INTRODUCTION AND BACKGROUND

- 1.1 Ordinarily, local authorities are restricted using capital receipts they receive from the sale of assets to only funding capital expenditure.
- 1.2 As part of the November 2015 Spending Review, the Government introduced the flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services, known as the Flexible Use of Capital Receipts guidance (the guidance). Guidance on the use of this flexibility was issued in March 2016 and initially applied to the period from 2016/17 to 2019/20. In 2018 the Government extended the scheme through to 2021/22. In April 2022 the Government announced it was extending the scheme by a further three financial years through to 31 March 2025.
- 1.3 Local authorities intending to apply the guidance are required to prepare a Flexible Use of Capital Receipts Strategy to be approved by Full Council which should disclose the projects to be funded or part-funded through capital receipts flexibility. This requirement can be met through the annual budget setting process or as part of the Medium-Term Financial Plan or equivalent. The Strategy should also report the impact of applying the guidance to the authority's Prudential Indicators for capital expenditure for the forthcoming year.
- 1.4 Additionally, there is now a requirement on local authorities who intend to apply the guidance to submit their proposed use of the capital receipts in advance to the Department for Levelling Up, Housing and Communities (DLUHC) to enable this to be monitored. Provision also now exists for local authorities to notify DLUHC of changes to their intended use of the guidance in year should this be required.
- 1.5 The Council's existing Medium Term Financial Strategy approved by Cabinet on 24 November 2021 (minute 52 refers) makes reference to utilising the capital receipts flexibility where possible to fund the transformation programme and take pressure off the General Fund. However, this does not meet the latest requirements for DLUHC's guidance and it is necessary for Full Council to approve a Flexible Use of Capital Receipts Strategy for 2022/23 financial year.
- 1.6 Previously the Council has used the guidance to allow it to capitalise some of its revenue expenditure on the transformation programme including the successful digital delivery of services to its residents and customers along with reconfiguring and restructuring its services.
- 1.7 Since the guidance came into force from 1 April 2016 until 31 March 2022 the Council has received qualifying capital receipts of £3.292m from non-housing asset disposals. Over the same period it has utilised £2.323m of this sum towards the transformation programme leaving a balance of £0.969m in capital receipts to apply against qualifying expenditure from 1 April 2022.

2. PROPOSED STRATEGY 2022/23

- 2.1 The Medium Term Capital Programme (MTCP) approved by Council on 10 February 2022 (minute 57 refers) includes the following three schemes planned to be met from capital receipts under the guidance in 2022/23:

Scheme		Link to Guidance & Purpose	Budget £'000
i)	ICT Improvement Costs	Digital Delivery of Services - Migration of Revenues and Benefits to externally hosted service including replacement of the Civica document management system	314
ii)	Website Content Management System	Digital Delivery of Services - Replacement of system	130
iii)	Transformation	Restructuring of Services - Redundancy and pension strain costs	105
Total Planned Use			549

- 2.2 The planned expenditure of £0.549m will reduce the balance of available capital receipts under the guidance from £0.969m at 1 April 2022 to £0.42m by 31 March 2023.
- 2.3 The Council will continue to explore options to dispose of other non-housing assets, not already committed to help fund other capital schemes, to generate capital receipts which could be used to meet further qualifying expenditure under the guidance.
- 2.4 **Prudential Indicators** – Because the schemes listed at 2.1, above, are included in the approved MTCP their impact on the Prudential Indicators for capital expenditure has already been included in those approved by Full Council on 23 February 2022 as part of the Capital Strategy for 2022/23 (minute 69 refers) and no further action is required.
- 2.5 In future, if legislation continues to permit, a Flexible Use of Capital Receipts Strategy will be included within the annual General Fund budget report to Full Council, usually in February each year.

3 CONCLUSIONS

- 3.1 This Flexible Use of Capital Receipts Strategy outlined in this report meets the latest DLUHC guidance.
- 3.2 The schemes planned to be met from capital receipts under the guidance are consistent with the approved MTCP and Prudential Indicators.

3.3 In future the Strategy will form part of the Council's annual budget process.

4 RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to comply with the DLUHC's guidance to approve a Flexible Use of Capital Receipts Strategy could expose the Council to unbudgeted revenue costs.	High	Low	Full Council to approve the Strategy
Lack of awareness of the DLUHC's guidance may put an additional strain on revenue budgets which could be capitalised	High	Medium	Incorporate an annual review of the Strategy into the budget setting process

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (NM)

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

5.2 **Finance Officer's Comments** (LW)

This report has been prepared by Financial Services. There are no further comments to add.

5.3 **Diversities and Equalities Implications**

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

5.4 **Communications** (JW)

There are no communications implications arising directly from this report

5.5 **Climate Change Implications** (OF) [*Pilot reporting period*]

There are no climate change implications arising directly from this report. It updates Cabinet on this position following decisions taken at Cabinet and Full Council. Climate change implications of the various projects referenced in the report will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making process.

6. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lee Walker, Capital & Treasury Senior Specialist

Tel: 01303 853593. e-mail :lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Department for Levelling Up, Housing and Communities – Guidance on the flexible use of capital receipts (updated 4 April 2022)

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

Appendices:

None