

## Flexible Use of Capital Receipts Strategy 2024-25

7 March 2024

### Report of Chief Finance Officer

#### PURPOSE OF REPORT

Statutory guidance from the Department for Levelling Up, Homes and Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) enables local authorities to make flexible use of capital receipts to fund projects which are likely to generate savings to the authority and / or other public bodies.

To make use of this provision, authorities must submit to the Secretary of State a Flexible Use of Capital Receipts Strategy setting out how the provision will be applied in the next financial year.

This report proposes a Flexible Use of Capital Receipts Strategy for 2024-25 to complement Phase 2 of the Council's Outcomes-Based Resourcing programme – Fit for the Future

**This report is public.**

#### RECOMMENDATION OF COUNCILLOR HAMILTON-COX

- (1) To recommend that Full Council approves the Flexible Use of Capital Receipts Strategy 2024/25 set out in this report, in accordance with the relevant statutory guidance.

#### 1.0 INTRODUCTION

- 1.1 All Councils are limited in their ability to utilise capital receipts, usually arising from the disposal proceeds from the sale of fixed assets. 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.

- 1.2 The Government's Spending Review 2015 included a relaxation of these 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 has continued to be extended.

- 1.3 This was extended in an amended direction in December 2017 by a further three years up to and including 2021/22 to allow the continued flexible use of capital receipts for the above purposes. Further updated statutory guidance was issued by DLUHC in August 2022 which extended the scheme for the financial years 2022/23, 2023/24 and 2024/25.
- 1.4 Although there have been recommendation by bodies such as CIPFA for an enhanced capital flexibilities no formal guidance has been issued and so the current provision will cease 31<sup>st</sup> March 2025

## **2.0 THE GUIDANCE / DIRECTIVE**

2.1 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, or several authorities,' and/or to another public sector body's net service expenditure 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.

## **3.0 REQUIREMENTS FOR THE STRATEGY**

- 3.1 The guidance requires that authorities wishing to make use of this provision must submit their Strategy to the Secretary of State ahead of each financial year in which the provision is to be used; but that no approval or response is required from the Secretary of State for the Strategy to be implemented. Should Full Council approve the proposed Strategy, it will be submitted to the Secretary of State via the DELTA system.
- 3.2 The Strategy must as a minimum set out the projects which plan to make use of the provision, along with their projected savings and / or service transformation and a summary of the impact on the authority's Prudential Indicators for the forthcoming year and subsequent years. This information is set out in in sections 7 and 8.
- 3.3 The Strategy should also review use of any provision in previous years and report on the savings and / or transformation achieved through use of the provision so far. Lancaster City Council has not yet made use of the provision, and as such any benefits arising from this Strategy will be reported in subsequent years, this is set out in section 9.
- 3.4 The Strategy can be updated at any time during the financial year and re-submitted to the Secretary of State. Authorities must not exceed the amounts stated in their Strategy without first submitting an updated Strategy to the Secretary of State.

- 3.5 The Strategy must be made available to the public free of charge. This report, which is public, sets out Lancaster City Council's Flexible Use of Capital Receipts Strategy for 2024-25 in fulfilment of the above requirements.

#### **4.0 MONITORING AND UPDATING THE STRATEGY**

- 4.1 It is intended that the flexibility will be used to support the actions arising from the Outcomes-Based Resourcing/ Fit for the Future process. The legitimacy of the use of capital receipts will be determined by the Section 151 Officer to ensure eligibility and compliance with the requirements set out by the Secretary of State. Progress on delivery of the programme, including financial implications and the realisation of benefits, will be reported through Delivering Our Priorities quarterly monitoring via Cabinet and Budget & Performance Panel.
- 4.2 The Strategy may be updated within the financial year. Any updates will be proposed to Cabinet and then Council via a report, which subject to approval would then be submitted to the Secretary of State.
- 4.3 Adoption of the Strategy does not necessarily oblige the Council to utilise capital receipts and initiatives may still be financed in whole or in part from other sources, e.g., revenue budgets. This recognises that not all capital receipts may be realised and that decisions need to be taken in the context of the Council's overall revenue and capital financing position.
- 4.4 Inclusion in the Strategy also does not constitute approval to progress a project.

#### **5.0 WHICH CAPITAL RECEIPTS ARE ELIGIBLE?**

- 5.1 The guidance sets out the criteria by which capital receipts are eligible for flexible use, summarised in the below excerpt from the guidance:

*"...a qualifying disposal is an asset sale made within the period for which the direction applies, 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."*

- 5.2 It should be noted that the flexibility excludes Right-To-Buy capital receipts. It should also be noted that the Council's budget process has assumed that forecast capital receipts have not been relied upon to fund any future expenditure.
- 5.3 Forecast capital receipts from 2024/25 onwards have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. The use of these receipts under this flexibility will, therefore, have no effect on the Council's Prudential Indicators.

#### **6.0 WHICH EXPENDITURE IS ELIGIBLE?**

- 6.1 The guidance also sets out the criteria by which expenditure would be considered eligible for flexible use of capital receipts. The guidance summarises as follows:

*"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."*

*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. Under the direction the in force from April 2022, with respect to redundancy payments, qualifying expenditure will be limited to those amounts that are necessarily incurred as statutory redundancy payments provided the other requirements of qualifying expenditure are met. This restriction does not apply to other severance costs, including pension strain costs; the treatment of these costs remains unchanged from the previous direction.”*

6.2 The guidance provides a range of examples of expenditure which could be considered eligible, although the list is intended to be neither prescriptive nor exhaustive; based on the principles above, it is intended for each individual authority to consider whether a project should be eligible under the provision. The examples from the guidance are summarised below:

- 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 where this leads to ongoing efficiency savings or service transformation.
- 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); and
- Integrating public facing services across two or more public sector bodies (for example children’s social care or trading standards) to generate savings or to transform service delivery.

## **7.0 THE COUNCIL’S PROPOSALS 2024/25**

7.1 The Council intends to use its capital receipts flexibility to fund or part fund savings connected to its Fit for the Future process with the aim of successfully delivering priority outcomes for the Lancaster district whilst at the same time achieving long-term sustainability of finance and resources.

7.2 Within the revenue budget proposals for 2024/25 there are a number of savings and workstreams which underpin the corporate programmes listed in table 1 below. These programmes cover a wide range of areas such as the review of service operating models exploring opportunities around the increased use digital technologies, income generation as well the principals of Zero-Based Budgeting.

**Table 1: Corporate Proposals for 2024/25**

<b>Project</b>	<b>Description</b>	<b>Estimated Investment/ Cost</b>	<b>Projected Savings £M</b>
Service Levels & Efficiency	Revisions and rationalisation of levels of service offering efficiency measures, increased commercialisation, and review of income streams	TBC	TBC
Digitalization	Improvements to residents access reliable advice, consistent information, and efficient Council services Reduce failure demand and help the Council meet high volume, routine transactions in a cost-effective manner. Review the functionality and costs of each ICT system with the objective of maximising the use of the functionality available and reducing the total number of systems used.	TBC	TBC
Alternative Delivery Models & Partnerships	Shared service savings, opportunities, contract reviews & alternative options for achieving outcomes	TBC	TBC
Strategic Asset Management	Improved asset management planning, asset usage reviews, potential disposals, optimising use of operational assets and prospects for energy and carbon reduction measures.	TBC	TBC

- 7.3 Whilst these broad proposals are underpinned by a number of individual areas of which many are in their infancy and yet to be full costed. However, with all change programmes there will be a need for upfront investment in areas that will deliver capacity and objectivity.
- 7.4 As has been noted within both the Council's Medium Term Financial Capital Investment Strategies, the way the Council manages its assets will also play a significant part in not only delivering its services to its resident but also identify opportunities to fund both the Fit for the Future process but also its wider capital programme.
- 7.5 A significant amount of work has been undertaken by Officers to identify suitable assets and table 2 provides summary details of the class of assets currently being marketed by the Council.

**Table 2: Assets for Disposal**

<b>Assets Currently Marketed 2024/25</b>	<b>Expected Capital Receipts 2024/25 £M</b>
Investment Properties	1.205
Other Land & Buildings	0.180
<b>Estimated Value of Applicable Capital Receipts</b>	<b>1.385</b>

## **8.0 IMPACT ON PRUDENTIAL INDICATORS**

- 8.1 As referenced in paragraph 5.3, forecast capital receipts from 2024/25 onwards have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. The use of these receipts under this flexibility will, therefore, have no effect on the Council's Prudential Indicators.

## 9.0 MONITORING OF THE 2023/24 STRATEGY

9.1 The directive requires that progress against the strategy is reported and table 3 below summaries the level of savings identified as part of the 2023/24 budget process, with progress reported on a quarterly basis to Cabinet and B&PP as part the standard Delivering our Priorities quarterly reporting cycle.

**Table 3: Savings Monitoring**

Project	Description	Estimated Savings £M	Actual Savings £M	Variance £M
Service Levels & Efficiency	Revisions and rationalisation of levels of service offered efficiency measures and review of income streams	1.661	1.604	0.057
Alternative Delivery Models & Partnerships	Shared service savings, opportunities, contract reviews & alternative options for achieving outcomes	0.148	0.011	0.137
Organisational Structure & People	Senior leadership restructure, establishment review to ensure fitness for purpose, alignment with desired strategic outcomes, deletion of vacant posts	0.448	0.448	0
Strategic Asset Management	Improved asset management planning, asset usage reviews, potential disposals, optimising use of operational assets and prospects for energy and carbon reduction measures.	0.166	0.166	0
<b>Total</b>		<b>2.423</b>	<b>2.229</b>	<b>0.194</b>

9.2 To date £2.229M of the £2.443M (92%) of the savings identified within the 2023/24 budget have been achieved with associated eligible costs of £0.898M. The Council expects to receive £0.438M of associated capital receipts which is below the level of costs incurred, this has resulted in an additional cost pressure on the revenue budget of £0.459M this year. Table 4 below summaries the associated eligible costs, capital receipts received and the overall impact on the Councils General Fund.

**Table 4: Eligible Costs and Capital Receipts**

<b>Eligible Costs Incurred 2023/24</b>	<b>£M</b>
Statutory Redundancy	(0.239)
Pension Strain	(0.588)
Consultants	(0.070)
<b>Total Eligible Costs</b>	<b>(0.898)</b>
<b>Capital Receipts Received April to December 2023/24</b>	<b>£M</b>
Wyresdale Road Land	0.325
Misc Vehicle Sales	0.059
Grants Clawed back	0.012
Expected Capital Receipts Q4	0.042
<b>Total Expected Capital Receipts</b>	<b>0.438</b>
<b>Impact on the Council's General Fund</b>	<b>(0.459)</b>

## 10.0 DETAILS OF CONSULTATION

- 10.1 The Council has undertaken substantial consultation including public briefings and a survey in establishing its overall budget proposals for 2024-25 onwards. This Strategy contributes to the delivery of those proposals by making use of the financial flexibility available to the Council in implementing its Fit for the Future approach.

## 11.0 OPTIONS AND OPTIONS ANALYSIS (including risk assessment)

<b>Option 1: Adopt the Strategy</b>
<b>Advantages</b> The Council will be able to make use of the Flexible Capital Receipts provision in delivering its Fit for the Future programme.
<b>Disadvantages</b> None identified from this report.
<b>Risks</b> Capital receipts, savings and transformation benefits may not be realised as anticipated in the Strategy; the associated risks will be mitigated through the implementation of the Fit for the Future programme.
<b>Option 2: Do not adopt the Strategy</b>
<b>Advantages</b> None identified from this report.
<b>Disadvantages</b> The Council will be unable to consider funding savings initiatives and service transformation through use of capital receipts, and may therefore be unable to achieve the savings, outcomes and benefits anticipated from these projects.
<b>Risks</b> Not adopting a Flexible Use of Capital Receipts Strategy at this point would severely constrain the Council's ability to deliver its Fit for the Future programme.

## 13.0 OFFICER PREFERRED OPTION

- 13.1 The officer preferred option is Option 1, to enable the Council to make use of the Flexible Capital Receipts provision in supporting its savings and service transformation initiatives over the coming years.

## 14.0 CONCLUSION

- 14.1 This report, if approved, will enable the council to use capital receipts to fund savings and service transformation initiatives. Failure to adopt a Flexible Use of Capital Receipts Strategy will severely constrain the council's ability to pursue these initiatives.

### **RELATIONSHIP TO POLICY FRAMEWORK**

If adopted, the Flexible Use of Capital Receipts Strategy would form part of the council's Policy Framework. From a strategic perspective, enabling the use of capital receipts to deliver savings and service transformation initiatives will give the council scope to pursue its Outcomes-Based Resourcing programme with greater flexibility and effectiveness.

### **CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No direct impact arising from this report. All initiatives supported by flexible use of capital receipts will be considered for their impact as appropriate.

### **FINANCIAL IMPLICATIONS**

As outlined in the report, forecast capital receipts generated during the year will be used flexibly in compliance with the requirements of the Secretary of State to support projected savings identified as part of the Outcomes-Based Resourcing/ Fit for the Future process. Use will be determined by the s151 officer to ensure both eligibility and the impact on the Council's overall revenue and capital financing position.

### **SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has contributed to the writing of this report, however, he wishes to draw Members attention to the following.

Although there is the potential for further extensions and increased flexibilities to the use of capital receipts this has not been confirmed. Under the current proposals the flexibilities offered will cease 31<sup>st</sup> March 2025. Delays in planning, marketing, and disposal of assets to fund the 2023/24 savings programme has resulted in a cost the Council £0.459M. This will fall directly on the Councils revenue reserves.

### **LEGAL IMPLICATIONS**

The Local Government Act 2003 ("the Act"), section 15(1) requires a local authority "... to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify ...

". Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain guidance on capital receipts and local authority accounting that complement the Department for Levelling Up, Housing and Communities (DLUHC) guidance. These publications are:

- The Prudential Code for Capital Finance in Local Authorities
- The Code of Practice on Local Authority Accounting

Local authorities are required to have regard to the current edition of The Prudential Code for Capital Finance in Local Authorities by regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and to the Local Authority Accounting Code as proper practices for preparing accounts under section 21(2) of the Act.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments to add.

### **BACKGROUND PAPERS**

**Council**  
**Revenue Budget 2024/25**  
[Agenda for Council on Wednesday, 28th February 2024, 6.00 p.m. - Lancaster City Council](#)

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**FUCRD 2023/24**

[Agenda for Council on Wednesday, 15th March 2023,  
6.00 p.m. - Lancaster City Council](#)