Flexible Use of Capital Receipts Strategy

Introduction

From 2016/17 Local authorities were given the power to use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered, to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. The flexibility was granted for three financial years to 2018/19 and was then extended for three years from 2019/20 to 2021/22. On 10 February 2021 the government announced a further three year extension from 2022/23 onwards.

On 18 December 2023, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC) announced that Government would engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage invest-to-save activity, and more flexibilities to use capitalisation without the requirement to approach Government. The consultation opened on 19 December 2023 and closed on 31 January 2024, and at the time of preparing this strategy the government had given no formal response or any indication as to whether any of these options will be introduced for 2024/25 or future years. The consultation focussed on three options:

- Option 1: extend capitalisation flexibilities to include a wider set of eligible costs.
- Option 2: extend the flexible use of capital receipts to allow authorities to borrow for the revenue costs of invest-to-save projects.
- Option 3: Allow additional flexibilities for the use of the proceeds of selling investment assets.

This Strategy sets out the intended use of the existing flexibility at Medway Council and will be updated as part of the annual budget process in coming years if this flexibility is again extended or expanded as indicated in the consultation document.

Qualifying expenditure

To qualify for this flexibility, expenditure should be forecast to generate ongoing savings to an authority's' net service expenditure. 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.

Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform.

Examples of projects cited in the Government guidance include:

- Sharing back-office and administrative services with one or more other councils or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), 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;

- 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).

Medway Council's Strategy for use of funds

Where the Council is looking to capitalise pump priming costs, additional surplus assets may be identified and sold.

The council will have due regard to the requirements to the Prudential Code and the impact on the prudential indicators. Capital receipts from the sale of assets are not built into the Council's current capital programme and so the utilisation of receipts for capital receipts flexibility will not have a detrimental impact on the Council's prudential indicators, as set out in the Council's Treasury Management Strategy.

All schemes which are eventually deemed to qualify under this programme would have the required costs funded through capital receipts rather than revenue funding streams. Approval of projects and allocation of funds arising from the use of flexible capital receipts will be at the discretion of the Section 151 Officer.

Planned schemes

Subject to the availability of capital receipts, the Council will use the flexibility to fund the overarching Improvement Programme, including:

- Adult Social Care Transformation and Improvement Programme,
- Medway 2.0 digital transformation programme,
- Delivery of action plans from the CIPFA, P&CH and external audit reviews where they pertain to transformational activity,
- Delivery of the Council's wider Improvement Programme, delivering transformational activity to support the Council's ongoing financial sustainability.