Appendix F

Policy for Flexible use of Capital Receipts

Purpose

1. This report reviews the statutory guidance on the flexible use of Capital Receipts and its application within this authority.

Background

2. 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.

3. The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

4. The Secretary of State for Communities and Local Government has issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction 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."

5. In order to comply with this Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This 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.

6. 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.

7. The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy 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.

8. The Flexible Use of Capital Receipts Strategy is set out below.

Flexible Use of Capital Receipts Strategy

9. Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

> "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. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

10. The Council's intends to use the following use of capital receipts to fund the following:

	16/17 £m	**17/18 £m**	**18/19 £m**	**Total £m**
Revenue Costs (to be funded from Capital Receipts)				
ASC Programme	1.2	2.5	-	3.7
Other Transformational Schemes	-	1.2	1.1	2.3
Total	**1.2**	**3.7**	**1.1**	**6.0**

Impact on Prudential Indicators

11. The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy.

12. The indicators that will be impacted by this strategy are set out below;
    - Estimates of Capital Expenditure Indicator increased by £6m
    - Capital Financing Requirement increased by £6m as these capital receipts supported schemes within the existing programme that will now be financed by prudential borrowing.
    - Financing costs as a percentage of net revenue stream (%), no impact as the savings generated from these projects will meet the debt financing costs arising from the additional borrowing.
    - Incremental Impact on Council Tax / Housing Rents of Capital Investment Decisions - no impact as savings will meet the debt financing costs

13. The Prudential Indicators show that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits.