INTRODUCTION

In the Spending Review 2015, it was announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects.

The flexibility was initially offered to the sector for the three financial years 2016/17 to 2018/19. In December 2017, the Secretary of State announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme for a further three years, covering 2019/20 to 2021/22. The flexibility has been extended on numerous occasions. In December 2023, the government announced the extension of this scheme to March 2030 and would also explore additional capital flexibility options to enable invest-to-save and transformation initiatives. There is currently a consultation on these options which will close on 31 January 2024.

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

The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authorities', or several authorities, and/or to another public sector body's net service expenditure.

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EXAMPLES OF QUALIFYING PROJECTS

There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- 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;
- 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); and

RULES OF QUALIFICATION

Local authorities cannot borrow to finance the revenue costs of service reform.

For any financial year the Strategy ("the initial Strategy") should be prepared before the start of the year.

The authority should prepare an annual strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent.

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.

All services must ensure that they have adequate available resources to maintain the ongoing revenue requirement for all capital projects.

Where possible, the Council will be looking to fund the revenue costs from within revenue resources and therefore the use of capital receipts will only be utilised where all other funding streams have been exhausted.

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 built into the Council's current capital programme and so the utilisation of receipts for capital receipts flexibility will need to be considered alongside the use of receipts already built into the Capital Programme.

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.

Any revenue expenditure, which falls within the criteria of qualifying expenditure, can be attributed as eligible for applying against capital flexibilities where this expenditure leads to ongoing efficiency savings or service transformation.

The 2024/25 MTFS includes a budget of £1.250m to fund the Regeneration Team. The nature of this spend meets the capital flexibility criteria and the team will be funded under the capital flexibilities scheme. The £1.250m provision/cost has been offset by a corresponding credit which will result in the cost being removed from the budget and funded by capital receipts. The sum is re-instated in 2026/27 but will be reviewed as part of the 2025/26 budget process as there will be more information on additional capital flexibility options following the consultation on these proposals (see section below).

In addition, there are also a number of revenue costs in 2024/25 associated with the implementation of revenue budget savings and therefore, where a revenue cost arises which meets the rules of qualification set out in the strategy, these costs might also be funded from capital receipts. The costs will be associated with the savings set out in Appendix 1A.

PROPOSALS ON NEW LOCAL AUTHORITY CAPITAL FLEXIBILITIES

On 19 December 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published a call for views on new local authority capital flexibilities. The call for views invites local authorities, sector representatives and other stakeholders to provide views on a set of options with respect to capital flexibilities and borrowing, to be managed locally, that could be used to encourage and enable local authorities to invest in ways that reduce the cost of service delivery and provide more local levers to manage financial resources. The proposals are summarised below, and the calls for view close on 31 January 2024.

- **Extending capitalisation flexibilities to include a wider set of eligible costs, in particular general revenue costs**, in exchange for the authority putting in place and committing to delivering an efficiency plan to reduce costs, with a defined payback period on any capitalised spend within the Medium Term Financial Plan. This would provide local authorities with a route to capitalise such costs without resorting to exceptional financial support discussions with DLUHC.

- **Extending the flexible use of capital receipts to allow authorities to borrow for the revenue costs of invest-to-save projects**, as an extension of the current framework which allows councils to borrow for such costs.

- **Allowing additional flexibilities for the use of the proceeds of selling investment assets**, treating them in a similar way to capital receipts, where investment property refers to property held under accounting standard IAS 40.

- **Introducing a reduced interest rate for borrowing from the Public Works Loans Board for invest-to-save projects.** This would be limited only to the capital costs of expenditure on projects. It is likely that local authorities would not have to apply to Government to use the rate, but should reflect this in their capital plans provided to DLUHC, but they would not be able to borrow in advance of need. The discount would not be worth more than 40 basis points (the discount currently applied to HRA borrowing).

The Government is also considering the following controls against unintended consequences of further flexibility:

- Full transparency, including submission of plans to use flexibilities to Government (but not for approval), regular updates on progress against the efficiency plan and other transparency measures.

- Mandation of a payback period for efficiency and invest-to-save plans.
- A requirement of a self-commissioned independent review of efficiency plans, with mandatory publication of findings.
- Limiting flexibilities to certain types of expenditure
- Government-commissioned independent reviews.