



## **ANNEX H**

### **STRATEGY FOR THE FLEXIBLE USE OF CAPITAL RECEIPTS**

#### **1. INTRODUCTION**

- 1.1** To support local authorities to deliver more efficient and sustainable services, a time limited flexibility is currently available to use capital receipts from the disposal of property, plant and equipment assets to fund the revenue cost of service reform.
- 1.2** Under normal rules, capital receipts can only be used to fund capital expenditure such as the purchase of capital assets or improvements to existing assets.
- 1.3** The Ministry of Housing, Communities and Local Government (MHCLG) have issued an extension to a Direction and published guidance that enables Councils to use income from the sale of certain assets to fund the short-term revenue costs that support Transformation, Invest-to-save and efficiency projects in order to provide revenue savings in the future.
- 1.4** The strategy has regard to the Guidance on the Flexible Use of Capital Receipts issued by the Secretary of State under Section 15 (1)(a) of the Local Government Act 2003 during March 2016, including only those projects which are designed to generate ongoing revenue savings in the delivery of services and/or transform service delivery in a way that reduces costs or demand for services.
- 1.5** This strategy sets out the intended use of this flexibility and applies to the financial year 2026/27 and for each subsequent financial year to which the flexible use of capital receipts direction applies (currently 2029/30 is the last year). The Strategy will be updated as part of the annual budget process in subsequent years.

#### **2. BACKGROUND**

- 2.1** 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.



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- 2.2** The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not allowed by the regulations. The Secretary of State is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure and therefore funded by capital receipts.
- 2.3** The Secretary of State for Communities and Local Government issued a Direction in March 2016, giving local authorities greater freedoms to use capital receipts to finance expenditure, initially up until 2018/19. This allowed local authorities to treat qualifying expenditure on transformation projects as capital expenditure and to fund it from capital receipts received after April 2016.
- 2.4** Qualifying expenditure was defined as: "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."
- 2.5** There have been number of extensions to the scheme since 2018/19 and on 18 December 2023 it was confirmed as part of the Provisional Local Government Settlement that the current scheme, which currently applies to expenditure and receipts incurred between 1 April 2022 and 31 March 2025, had been extended to 31 March 2030.
- 2.6** Therefore, to make use of capital receipts flexibilities, any qualifying revenue expenditure incurred between 1 April 2024 and 31 March 2030 can be considered.

### **3. FLEXIBLE CAPITAL RECEIPTS STRATEGY**

- 3.1** The Guidance on the Flexible Use of Capital Receipts allows set-up and implementation costs to be counted as qualifying costs, however the on-going revenue costs of new processes or arrangements cannot.



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- 3.2** Only receipts from the disposal of capital assets received between 01 April 2024 and 31 March 2030 are eligible for use to fund the qualifying costs of service reform. A balance of £4.710m is held within the Capital Receipts Reserve at 31 March 2025. Capital Receipts of £0.500m are anticipated to be received in the current financial year. A decision on whether to allocate for Flexible Use of Capital Receipts will be taken once the capital financing outturn position is known in July 2026.
- 3.3** The 2026/27 Revenue Budget and MTFS report highlights a growing budget gap from 2027/28. The Council will need to develop and accelerate its Savings and Transformation Programme to address the budget gap identified.
- 3.4** A consideration of the savings and transformation programme should be the approach to costs (including one off costs) associated with supporting the delivery of these transformation savings. Whilst the Council does have capital receipts, these are utilised in support of capital expenditure and are reducing. Further receipts should be anticipated over the MTFS period. Therefore, this strategy proposes that subject to strict criteria and an assessment by the Council Section 151 Officer, a proportion of the costs are funded from a proportion of capital receipts the council holds and intends to obtain during the financial year.

Workstream #001					
Project	Summary	Lead Officer	Anticipated cost of delivery (£'000)	Anticipated annual revenue saving (£'000)	Use of Capital Receipt (Fin Year)
			0	0	

- 3.5** To achieve this, the use of capital receipts to support activity could include funding the costs associated with service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service



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transformation that will be required throughout 2026/27 and over the MTFS period. The table above provides a template for how projects that are considered as eligible for flexible capital receipt funding would be identified, monitored and reported.

- 3.6** Service reform projects can still be financed in whole or in part from other resources e.g., Earmarked reserves. The Council is not obliged to fund these projects from capital receipts, however, on the approval of this strategy, it will have the option to do so.
- 3.7** The Council has due regard to the requirements of the Prudential Code and the impact on its prudential indicators from the application of this Flexible Use of Capital Receipts Strategy.

## **4. MONITORING OF THE STRATEGY**

- 4.1** Projects included in the strategy support the Council's Cabinet Transform Working Group and progress will be monitored regularly as part of the quarterly Financial, Council Priority and Service Performance reporting.