Flexible Use of Capital Receipts Strategy

1. Introduction

Ordinarily, capital resources such as capital receipts can only be used on capital expenditure (i.e. the creation or enhancement of a capital asset). However, the MHCLG Secretary of State issued a direction to local authorities in order to give them the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings, including through redundancy, for the financial years 2016/17 to 2021/22. By using capital receipts, the council is able to avoid the negative impact of on its annual revenue budget of one-off costs but this will reduce the available resources for future capital projects.

2. The Direction

The direction issued by the Secretary of State specifies that local authorities can treat as capital expenditure, expenditure which:

- "is incurred by the authority that is designed to generate 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"
- "is properly incurred by the authority for the financial years that begin on 1 April 2016 to 1 April 2021"

3. Available capital receipts

It is a condition of the direction that it only applies to capital receipts received in the years to which the direction applies.

From 2016/17, the council's General Fund has received £194,000 in capital receipts which meet the criteria to be used under this direction.

4. Proposed use

2020/21 – the council approved a number of measures in the revised budget (CAB3256 September 2020) in order to generate ongoing savings including a number of redundancies. The severance costs have not been finalised but it is proposed that the first £194,000 in costs be funded by the available capital receipts in accordance with this strategy.

2021/22 – no further redundancies are currently planned but should further savings be required, it is proposed to use any of the remaining available receipts to fund any severance costs. In addition, the proceeds from any further in-year asset sales will be used for this purpose though none is currently forecast.

5. Prudential indicators

As the capital receipts available under the direction were not allocated to existing capital projects, there is no impact on the council's prudential indicators as it has not been necessary to identify alternative funding sources.

It should be noted that these receipts will not be available for future projects and alternatives such as borrowing may need to be identified in the future which would increase the council's capital financing requirement (borrowing need). However, the council is allowed to borrow for capital projects whereas it is not for revenue purposes.