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. A further direction was issued in 2022 covering the financial years 2022/23 to 2024/25 and this has since been further extended to 31 March 2030. By using capital receipts, the council can avoid the negative impact of one-off costs on its annual revenue budget, 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 Authorities 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; and

- is properly incurred by the Authorities for the financial years that begin on 1 April 2025, 1 April 2026, 1 April 2027, 1 April 2028 and 1 April 2029”.

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.

4. Proposed use

2025/26 – the council does not plan to apply capital receipts to transformation projects.

2026/27 onwards - the council may use qualifying capital receipts, when appropriate and if available, to help fund the revenue costs of any transformation projects identified, though none specifically has been identified to date. In accordance with the direction, any such projects must deliver ongoing savings to the council.

5. Prudential indicators

As the capital receipts available under the direction are not allocated to existing proposed 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 any receipts used 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.