

## **Draft - Flexible use of Capital Receipts Strategy 2024-25**

### **1. Introduction**

Traditionally, capital receipts could only be used for specific purposes as 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. The use of capital receipts to support revenue expenditure is not permitted by the regulations.

The proposals within this Flexible use of Capital Receipts Strategy have been prepared based on a capitalisation direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of Costs as Capital Expenditure.

The government has recently sought views on allowing local authorities further flexibilities to fund revenue costs from capital sources including allowing borrowing to fund general cost pressures (with a commitment to future efficiency savings), funding specific invest to save revenue costs from borrowing, and allowing authorities to use the proceeds from selling investment assets to fund revenue pressures or increase reserves or repay debt. We have not made any assumptions about new flexibilities within this strategy which is based on the existing guidance, and we are concerned that the options presented for views are contrary to the balanced budget requirement and could increase the risk of medium to long term financial sustainability for short term gain. This strategy has been developed to support the objectives within Securing Kent's Future and draft 2024-25 budget and 2024-27 MTFP to return the Council to financial sustainability.

### **2. Process and Regulations**

Before the council can flexibly use capital receipts it must prepare, publish, and maintain a 'flexible use of capital receipts strategy'. This must consider the impact of this flexibility on the affordability of borrowing by including updated prudential indicators. Full Council must approve this strategy before any qualifying expenditure is incurred. The current government directive allowing the flexible use of capital receipts ends on 31 March 2030.

Under the Flexible Capital Receipts guidance, the Secretary of State sets out that individual authorities are best placed to decide which expenditure projects are best to be funded by capital receipts. The key criteria for expenditure to qualify is that the schemes must be 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 a project qualifies for the flexibility.

Capital receipts used under the direction must be from genuine disposals (qualifying disposals). That is, disposals where the authority does not retain an interest, directly or indirectly, in the assets once the disposal has occurred.

Each authority should disclose the individual projects that would be funded or part-funded through the capital receipts flexibility to Full Council. This requirement can be satisfied as part of the annual budget setting process, through the Medium Term Financial Plan.

The Guidance recommends that the council produces a 'flexible use of capital receipts strategy' setting out details of projects to be funded through flexible use of capital receipts be prepared prior to the start of each financial year. The Guidance allows local authorities to update the strategy during the year.

It is a required condition of the direction that authorities must send details setting out their planned use of the flexibility to the Secretary of State, in advance of its use for each financial year. This is to make sure that the government is adequately sighted on the use of the flexibility and can monitor how it is used - it is not a process of approval.

Authorities may update their plans and resubmit to the Secretary of State during the year if things change.

### **3. Proposed Flexible Use of Capital Receipts**

The council currently has a number of transformation schemes with one-off or time limited activity costs which are designed to deliver recurring budget savings. The potential use of Flexible Use of Capital Receipts is focused on the core funded element of the revenue budget.

#### **Transformation and Demand Management in Social Services**

The proposal is to use this funding to support the one-off transformation work planned within Adult Social Care including the following service areas:

- 1) Technology Enabled Care £1.6m
  - 2) Microenterprises £0.3m
  - 3) Other Equipment £1.2m
  - 4) Enablement £4.9m
- TOTAL = £8.0m

The transformation activity proposed to be funded from capital receipts will contribute to the delivery of the future cost avoidance savings as summarised below and reflected in the proposed 2024-27 Medium Term Financial Plan.

	2024-25 £'m	2025-26 £'m	2026-27 £'m	Total saving over the MTFP £'m
Adult Social Care redesign savings	30.2	29.1	28.2	87.5

#### **4. Rationale and Considerations**

In the opinion of the Section 151 Officer the scheme expenditure for those programmes listed in Section 3, for the council to apply the 'flexible use of capital receipt strategy' freedom, qualifies on the basis that the expenditure would "...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...".

The underlying rationale for the approval of the flexibility is to reduce the burden on the council's revenue budget and specifically a greater call on the use of reserves, if needed, and therefore support the wider financial resilience of the council.

Capital receipts are ordinarily used to support the funding of the council's capital programme. Re-directing capital receipts under a 'flexible use of capital receipts strategy' would ordinarily lead to a corresponding increase in the council's underlying need to borrow to fund its planned capital programme. However, the level of capital receipts forecast to be received by 31 March 2024 has exceeded the assumed amount by £8m, so there is no adverse impact on capital borrowing. Notwithstanding this proposed use of receipts the council will continue to evaluate the use of the capital receipts from a treasury management perspective against other options in terms of utilising these resources to meet the Councils capital financing needs.

#### **5. Financial Implications**

Utilising the capital receipts flexibility would mean that the council's reserves would not decrease for the £8.0m indicative cost of the transformation activities. This funding along with the associated costs are factored into the council's final draft budget plans for 2024-25 alongside the savings that are expected to be generated from the transformation activity.

Not utilising the flexibility would mean that there would need to be an increase in the use of the council's reserves.

Approving the strategy in this report does not commit the council to adopting it. The Section 151 Officer will consider the optimal funding strategy, including the alternative option set out, based on available capital receipts and the actual and forecast level of reserves at the end of the financial year.

## **6. The Prudential Code**

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. These receipts have not been earmarked as funding for any other proposed capital expenditure and therefore there is no anticipated additional impact on the Council's prudential indicators as set out in the Council's Treasury Management Strategy.

The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this activity within the 2024-25 Statement of Accounts.

## **7. Monitoring the Strategy**

Implementation of this Strategy will be monitored as part of regular financial reporting arrangements.