Flexible Use of Capital Receipts Strategy 2024-25

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Introduction

To support local authorities to deliver more efficient and sustainable services, the government introduced flexibility to use capital receipts from the disposal of property, plant and equipment assets to fund the revenue cost of service reform.

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. However the Secretary of State issued 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.

Part of the requirements of the Direction is that Council presents a strategy to full Council outlining how they indeed to use these flexibilities and submits it to government once approved. This strategy sets out the intended use of this flexibility and applies to the financial year 2024/25.

The flexibilities fit well with the Council's Medium Term Financial Plan for achieving financial sustainability through transformation projects, including efficiency measures and invest-to-save projects. Given the level of savings required over the medium-term and the number and scope of projects within the plan, it will be important to provide funding for these projects. The use of capital receipts means that these essential projects can be progressed without putting additional pressure on revenue resources.

Background

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. 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.

In the Spending Review 2015, the Chancellor of the Exchequer announced the Government would allow local authorities to spend up to 100% of their capital receipts on the revenue costs of transformation projects, to support local authorities to deliver more efficient and sustainable services.

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, up until 2018/19. Allowing local authorities to treat qualifying expenditure on transformation projects as capital expenditure and to fund it from capital receipts received after April 2016. 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."

This was extended in 2018/19 as part of the Local Government Finance Settlement for a further three years until 2021/22. Then, in the 2022/23 Provisional Local Government Finance Settlement it was announced "a 3-year extension from 2022-23 onwards of the existing flexibility for councils to use capital receipts to fund transformation projects that produce long-term savings or reduce the costs of service delivery". On 4 April 2022, the Department of Levelling Up, Housing, and Communities confirmed this extension to 2024/25 and published Guidance and a Direction.

It was announced by Government alongside the Provisional Settlement on 18 December 2023 that the current scheme, which currently applies to expenditure and receipts incurred between 1 April 2022 and 31 March 2025, has been further extended to 31 March 2030. Therefore, to make eligible use of the scheme the capital receipts, and any qualifying revenue expenditure, need to be incurred between 1 April 2022 and 31 March 2030.

Proposed Investments

The Medium Term Financial Strategy approved by Full Council on 28th February 2024 included savings of £2.1m from the flexibilities around capital receipts to help deliver transformation and generate savings. This Strategy builds on that previously approved by Council and contains two activities outlined in the following table where these flexibilities can potentially be applied:

Activity	2024/25 £000	2025/26 £000	2026/27 £000
Care Technology Transformation	962	513	659
Early Redundancy / Voluntary Redundancy Scheme*	3,154	2,000	-
Total	**4,116**	**2,513**	**659**

*This is the total ER/VR costs and the amount that will be funded from capital receipts will be lower once non-statutory redundancy costs are removed and final availability of capital receipts confirmed.

Care Technology Transformation

The investment in this area was approved as part of the budget in February 2024 (growth reference GRO/HAS 001/24-25).

The proposal is to undertake a Care Technology transformation project, delivered over a five-year period, that will result in a significant increase in the number of residents using care technology from approximately 1,800 currently to approximately 4,400 in five years' time. The range of care technology on offer to residents will be increased, making better use of more innovative solutions and taking a personalised approach that focuses on finding the right solution to meet that individuals need. Care technology will be expanded into new cohorts, widening the offer from the mostly older population that the telecare service currently supports.

There will be an increased focus on prevention, such as prevention of falls and preventing long-term conditions that result in people requiring adult social care support. The result of the increased number of care technology users will be the prevention, reduction or delay of the type of needs that would otherwise require the provision of more costly social care support. The two largest areas of prevention, reduction or delay of need will be on those requiring care at home (homecare) and those requiring residential or nursing care. The significant majority (88%) of the saving will come from the prevention and delay of packages of packages of care that would otherwise have been required; the remaining 12% will come from reductions to existing care packages that are no longer required due to needs being met through technology.

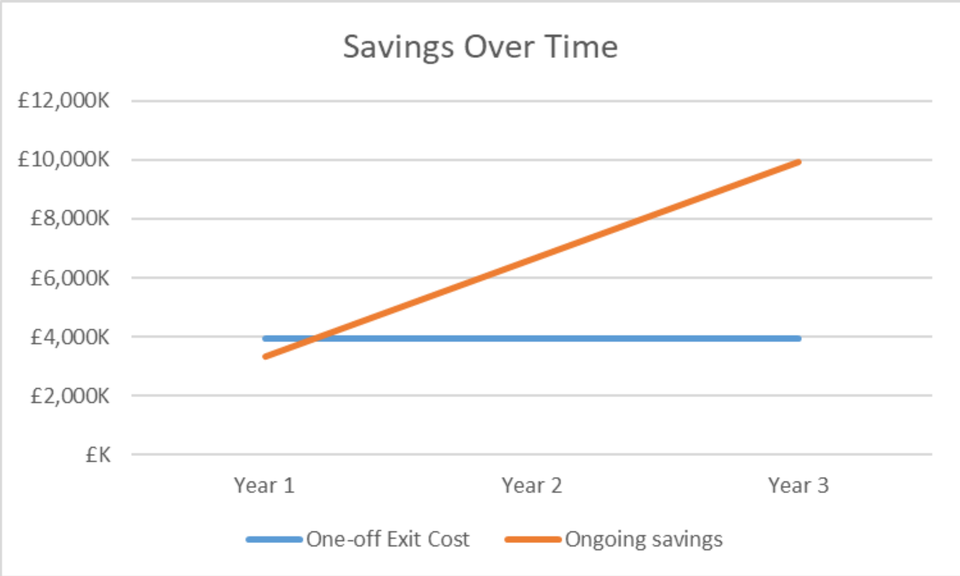
Delivering an improved care technology offer is a key part of the Council’s Adult Social Care vision and strategy. Care technology can support residents to achieve their goals, live more independently and reduce spend in adult social care. Care technology also enables the Council to achieve its ambition to work in collaboration with the North East London Integrated Care System to deliver integrated health and care services. For every £1 of investment it is expected there will be £2 of net benefits to the Council, from reduced, delayed or prevented needs that would have required care services to be put in place.

Early Redundancy / Voluntary Redundancy Scheme

The council has set clear criteria for its savings identification process designed to protect frontline services to residents, avoid compulsory redundancy where possible and increase permanent employment opportunities by reducing reliance on temporary and interim resources. To assist this a council wide Voluntary Redundancy/Early Retirement programme was initiated.

Through restructuring and efficiencies these posts can be removed, and savings achieved. The following table shows the projected savings over time and that the initially investment is quickly recouped and continue year on year while the costs of exit are a one-off.

The following table shows the projected savings from the first round of Voluntary Redundancy/Early Retirement.



Due to the rules relating to the flexible use of capital receipt, only the statutory elements of redundancy payments can be funded and therefore once the non-statutory element is calculated and excluded the actual amount funded will be less than the total projected cost in the table and subject to the availability of capital receipts.

The scheme is expected to continue into 2025/26 and an indicative value has been included in that year, with that potential use of capital receipts assisting to funding the delivery of those on-going savings.

Historical Flexible Use of Capital Receipts

The Council has not previously exercised its option to use the capital receipts flexibility direction prior to 2024/25. This is the first flexible use of Capital receipts Strategy the Council has produced and will be submitted to the Secretary of State following approval by Full Council in accordance with the rules.

Impact on Prudential Indicators

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. Any capital receipts which are received and not allocated will be used to fund revenue costs incurred in accordance with this strategy to deliver savings and efficiencies. As any receipts used have not been earmarked as funding for any other proposed capital expenditure there is no impact on the Council's prudential indicators as set out in the Council's Treasury Management Strategy.

The actual amount of funding applied through the flexible use of capital receipts will be determined by the amount of unallocated capital receipts available. The Medium Term Financial Strategy included the use of £2.1m of capital receipts for this purpose.

Monitoring the Strategy

This Strategy will be monitored as part of regular financial reporting arrangements and updated as required then reported back to full Council for approval.