

## **Flexible Use of Capital Receipt Strategy**

### **1. Background**

- 1.1. Guidance issued by the Secretary of State under Section 15(1) of the Local Government Act 2003 states that local authorities may finance costs associated with service reform from capital receipts. The ability to apply capital receipts in the way is referred to as the 'flexible use of capital receipts'.
- 1.2. This flexibility is currently offered to local authorities for expenditure incurred in the financial years up to and included 2020/21. This was confirmed in the Final Local Government Settlement for 2018/19. Local authorities can only use capital receipts from the disposal of property, plant and equipment assets received in the years the flexibility is offered. Local authorities may not use their existing stock of capital receipts to finance the revenue costs of reform, nor may they borrow to finance the revenue costs of service reform.
- 1.3. The guidance states that qualifying expenditure for the flexible use of capital receipts is '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 demands 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 or not a project qualifies for the flexibility'.
- 1.4. Local authorities are required to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. This Strategy should list each project which plans to make use of capital receipts flexibility, together with the expected savings that the project will realise.

### **2. Strategy**

- 2.1 The Council intends to use capital receipts to fund costs associated with the set up and implementation of the Council's leisure management contract in 2018/19.
- 2.2 The Council re-tendered for the provision of its leisure management services during 2017/18. The new leisure management contract arrangements went live in 2018/19. The contract is expected to deliver savings compared to the cost of the previous contract from 2019/20.
- 2.3 The Council does not currently intend to use capital receipts to support any other service reform over the duration of its current Medium Term Financial Strategy. Should this change, this strategy will be updated and presented before Members for approval.

### **3. The Prudential Code and impact on Prudential Indicators**

- 3.1 The Prudential Code of Capital Finance in Local Authorities ('the Code') is the code of practice used by local authorities to support decisions taken on capital investments. The Code places a requirement on local authorities to set prudential indicators. The Council is required to consider the impact on its prudential Indicators of the proposals contained within its Flexible Use of Capital Receipts Strategy. The impact of the proposals within this strategy on the Council's prudential indicators are:

- Estimated and actual capital expenditure will increase in 2018/19 by the value of the leisure implementation cost.
- The levels of core funds available for the Council to invest will decrease by the value of the leisure implementation costs.
- The ratio of financing costs to net revenue stream in 2018/19 will increase as a result of the reduction in interest generated by the investment of the Council's core funds.

#### **4. Monitoring the Strategy**

4.1. The strategy will be monitored via the Council's financial performance monitoring framework and leisure contract management arrangement.