HARBOROUGH DISTRICT COUNCIL

REPORT TO THE CABINET MEETING OF 7th June 2021

PUBLIC REPORT: Yes

EXEMPT REPORT: No

Report Title	Flexible Use of Capital Receipts Strategy
KEY DECISION	Yes – Added to the Forward Plan with the consent of the Scrutiny Commissioner
Report Author	Clive Mason: Director, Finance & Assets
Purpose of Report	• To approve the use of capital receipts to finance the revenue costs of transformation.
Reason for Decision	To support the Council in the financing of the revenue costs relating to the transformation of its services.
Portfolio (holder)	Councillor James Hallam; Finance
Corporate Priorities	YOUR COUNCIL: innovative, proactive, and efficient CO 10 – Deliver Financial Sustainability for the future
Financial Implications	The financial implications are addressed within the main report.
Risk Management Implications	The use of this flexibility reduces the revenue risk to the Council. If however, project costs exceed the available capital receipts allowed for by this flexibility, the costs will be financed by current capital financing or use of reserves.
Environmental Implications	None
Legal Implications	The Council is legally required to set and manage a balanced budget.
Equality Implications	None
Data Protection Implications	None
Consultation	Consultation has been undertaken with the Portfolio Holder.
Options	None
Background Papers	None
Appendices	• **Appendix 1**: Flexible Use of Capital Receipts Strategy • **Appendix 2**: Local Authorities Direction. • **Appendix 3**: Flexible Use of Capital Receipts (Updated) • **Appendix 4**: Analysis of HDC Capital Receipts

Recommendation	That Cabinet considers the Flexible Use of Capital Receipts Strategy (**Appendix 1**) and recommends: i) it is approved by Council, and ii) the delegation to the Director: Finance and Assets, following consultation with the Portfolio Holder for Resources of the use of up to £500k of potential 2021/22 Non-Right to Buy receipts to provide additional flexibility.

1.0 Background

1.1 Members will recall that in the summer of 2020, it was established that the Council was facing a potential budget gap of £4m for 2021/22; a cumulative gap of £16.8m over the 4-years of the Medium-Term Financial Strategy (MTFS). To close this gap the Council is currently undertaking the Budget Challenge 2025 (BC25) programme, which requires all services to fundamentally review their services.

1.2 With the completion of Tranche 1 of BC25, along with other corporate budget adjustments (i.e. increasing Council Tax), when the Council approved its 2021/22 Budget and MTFS in February 2021 it had reduced the forecast 2021/22 budget gap to £1.9m and the cumulative gap over the 4-years to £9.9m.

1.3 The Council should seek every opportunity to minimise the impact on its current revenue position. Several capital projects i.e. the customer services project (Netcall/Customer Services) do have significant revenue financing implementation costs. These costs will either be financed from immediate annual savings or they will be capitalised and charged back to revenue over the life of the asset (minimum revenue provision) i.e. the financing is either immediate or spread over future years. However, if it is possible to finance this revenue expenditure directly from other sources, the Council should take advantage of such freedoms. The recommended Flexible Use of Capital Receipts Strategy attached at **Appendix 1** meets this opportunity.

2.0 Flexible Use of Capital Receipts

2.1 For the past few years, the government has allowed local authorities to use Non-Right to Buy capital receipts to finance revenue expenditure where:

i. 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

ii. is properly incurred by the Authorities **for the financial years that begin on 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019, 1 April 2020 and 1 April 2021.**

*Source: **Appendix 2**: Local Authorities Direction*

2.2 The process for approving the application of these regulations should be taken as part of the annual budget setting, or at the earliest opportunity when a Council wishes to take advantage of this flexibility; as shown below:

11. The Guidance recommends that the 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. Failure to meet this requirement does not mean that an authority cannot access the flexibility in that year. However, in this instance, the Strategy should be presented to full Council or the equivalent at the earliest possible opportunity.

*Source: **Appendix 3**: Flexible Use of Capital Receipts updated*

2.3 This flexibility is aimed at financing "transformational" activity, primarily funding the set-up and implementation costs of any new process or arrangement (qualifying expenditure). Non-qualifying expenditure includes ongoing revenue costs and project costs that are "banked" in advance. Examples of qualifying expenditure is shown in paragraphs 4.2 and 4.3 of **Appendix 3** and some examples are shown below:

- Investment in service reform feasibility work.
- Collaboration across the public sector to free up land for economic use.
- Service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings
- Driving a digital approach.

2.4 However.

- only non-right to buy capital receipts can be used when this flexibility is exercised,
- such receipts can only be set against revenue expenditure incurred between April 2016 and March 2022, and
- only capital receipts received between April 2016 and March 2022 can be used.
- once approved, the government needs to be informed of the Councils wish to use this freedom.

3.0 Potential Projects to be Funded by the Flexible Use of Capital Receipts

3.1 There are several approved and in-planning capital projects that this flexibility can be applied against; best estimates at this time total £1.5m and are broken down as follows:

3.2 The currently approved revenue and capital programme budgets (the latter being financed by minimum revenue provision), include

i. **BC25 Service Transformation**:
- **Estimated Revenue to be Funded**: £120k
- **Reasons for Application of Flexibility**: to fund the management of the BC25 programme. A dedicated "project-lead" resource will allow the programme to be completed more quickly and provide direct "critical friend" support to service managers in their reviews.
- **Saving**: it is expected that the BC25 programme will save somewhere between 60% and 70% of reserves (1.1).

ii. **ICT Related Transformation**
- **Estimated Revenue to be Funded**: £475k
- **Reasons for Application of Flexibility**: To fund the implementation costs of the Netcall and customers services transformation programmes.
- **Saving**: the savings expected are expected to be more than £200k per annum from 2023/24.

3.3 The following projects are yet to be determined in detail and will be included in future reporting to Cabinet, and where necessary to Council. If the Council did not use this flexibility, it would have had to finance this transformational work from the Transformation Earmarked Reserve:

i. **BC25 and post-BC25 Service Transformation**
- **Estimated Revenue to be Funded**: £520k
- **Reasons for Application of Flexibility**: To support the delivery of the development management transformation, undertake feasibility reviews for the corporate IT systems for IDOX and eFinancials (finance system) and potential staff transition costs.
- **Saving**: the service savings expected to be achieved will vary across the different services but will be somewhere between 15% and 30% of a services annual net expenditure.

ii. **ICT Related Transformation**:
- **Estimated Revenue to be Funded**: £400k
- **Reasons for Application of Flexibility**: Extended digitalisation of services and associated processes; the development of new ICT delivery platforms, redesign of ICT provision and transformation management.
- **Saving**: the service savings expected to be achieved will vary across the different services but will be somewhere between 15% and 30% of a services annual net expenditure.

4.0 How much capital receipts are available to exercise this flexibility?

4.1 The provisional "Capital Receipts Reserve" balance at the 31st March 2021 is £4.6m (subject to audit). At this time, no account of actual or expected 2021/22 Non-Right to Buy capital receipts has been considered. If such receipts are received, it is recommended that delegated authority is given to the Director: Finance and Assets, following consultation with the Portfolio Holder for Resources to approve the use of additional capital receipts of up to £500k.

4.2 In respect of Non-Right to Buy receipts up to the 31st March 2021, a total of £1.2m (48%) is available; the apportionment is shown in **Appendix 4**. This is less that the currently determined need of £1.5m (paragraph 3.1).