

Flexible use of Capital Receipts Strategy

Purpose

1. This strategy sets out Slough Borough Council's approach to the use of the Government's Direction for the Flexible Use of Capital Receipts, in accordance with Section 15(1) of the Local Government Act 2003.

Background

2. In accordance with Section 15(1) of the Local Government Finance Act 2003, the Secretary of State is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.
3. The Secretary of State for Communities and Local Government first issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This guidance, updated in 2017, allows for the following expenditure to be treated as capital,

“Qualifying expenditure 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 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 or not a project qualifies for the flexibility.”

4. The guidance sets out that there are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:
 - A Sharing back-office and administrative services with one or more other council or public sector bodies;
 - B Investment in service reform feasibility work, e.g. setting up pilot schemes;
 - C Collaboration between local authorities and central government departments to free up land for economic use;
 - D Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
 - E Sharing Chief-Executives, management teams or staffing structures;
 - F Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
 - G Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
 - H Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;

- I Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
 - J Integrating public facing services across two or more public sector bodies (for example children’s social care, trading standards) to generate savings or to transform service delivery.
 - K Other non specified saving initiative
5. In December 2017, the Secretary of State announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme for a further 3 years (ie until and including 2021/22).
 6. The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform. Local authorities can only use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered. Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform.
 7. Accordingly, over the period 2016/17 to 2018/19, the following capital receipts were available:

| | Capital Receipts |
|---------------------------------|-------------------------|
| | £m |
| 2016-17 | 9.542 |
| 2017-18 | 8.431 |
| 2018-19 | 11.028 |
| Total 2016-17 to 2018-19 | 29.001 |

8. In order to comply with the Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy within Annual Budget documents.
9. There is no prescribed format for the Strategy; the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects. However, as a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should also report the impact on the local authority’s Prudential Indicators for the forthcoming year and subsequent years. Additionally, the guidance states that the Strategy should contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.

Previously agreed projects

10. Officers have assessed the impact of expenditure to date on the current programme, in Table 1 overleaf.
11. For the purposes of this analysis and in accordance with the guidance:
 - Cashable savings – are deemed to be ongoing savings where sufficient costs are mitigated allowing future cash limits in service area budgets to be reduced in anticipation of these savings being realised; and
 - Non-cashable savings – are deemed to result in a reduction in demand for services in future years.

12. It can be seen that in the first year, following implementation of the scheme, the Council achieved cashable savings of £1.000m and non-cashable savings of £4.579m.
13. The current forecast anticipates, over the time-period covered by the Flexible Use of Capital Receipts Direction (2017/18 to 2021/22): a cumulative total of £22.980m in cashable savings and a non-cashable reduction in demand of £54.777m.
14. The current forecast anticipates a total benefit of £60.715m on an initial investment of £17.903m.
15. Four projects are yet to achieve financial benefits, as follows:

| Transformation Fund | Type | Expenditure | | |
|--|-------------|--------------------|--------------|--------------|
| | | 16/17 | 17/18 | 18/19 |
| | | £m | £m | £m |
| 3rd & 4th Tier Restructures | D | | | 0.100 |
| Bus Lane Cameras | I | | | 0.050 |
| Customer & Accommodation | F | | | 0.300 |
| Head of Customer and Digital/Business Analysts | F | 0.126 | 0.211 | |
| | | 0.126 | 0.211 | 0.450 |

16. With the exception of the Head of Customer and Digital/Business Analysts, which primarily related to the initial development of a council-wide Digital Transformation Programme, these costs relate to the initial set-up of projects that will continue to be funded, and are forecast to realise substantial benefits, in future years.

Future projects

17. Table 2, overleaf, sets out the projects currently programmed for 2019/20 to 2020/21.
18. It can be seen that £2.000m of cashable are expected to be achieved in 2019/20.
19. The Council's Strategic Finance Board, which meets on a bi-monthly basis, will be responsible for overseeing the Transformation Fund programme throughout 2019/20.
20. Any Business Cases for future projects will be agreed at Corporate Management Team and subsequently reported to Council, in line with Government guidance.

Prudential Indicators

21. The Council measures and manages its exposure to treasury management risks using the following four new prudential indicators.
 - Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt provision net of investments;
 - Upper limits on fixed rate exposure. Similar to the previous indicators, this covers a maximum limit on fixed interest rates;
 - Total principal funds invested for a period longer than 364 days. These limits are set to reduce the need for early sale of an investment and are based on the availability of investments after each year-end; and
 - Maturity Structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing

22. Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed will be:

| LIMITS ON INTEREST RATE EXPOSURE | | | |
|--|---------|---------|---------|
| | 2018/19 | 2019/20 | 2020/21 |
| Limit on Principal invested beyond year end | £45m | £45m | £45m |
| Upper limit on fixed interest rate exposure | £350m | £350m | £350m |
| Upper limit on variable interest rate exposure | £300m | £300m | £300m |

23. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. Following recent discussions at the Council's Treasury Management Group and based on the Council's Current Strategy to utilise lower rates for short-term borrowing where possible in order to reduce pressure on the Revenue budgets, the above limits have been revised for 2019-20 financial year onwards.

24. Mature Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| MATURITY STRUCTURE OF BORROWING | | | | |
|---------------------------------|---------------------|--------------------|-------|-------|
| | Existing Level (£m) | Existing Level (%) | Lower | Upper |
| Under 12 months | 202,583 | 44.06% | 0% | 75% |
| 12 months and within 24 months | 3,083 | 0.67% | 0% | 50% |
| 24 months and within 5 years | 23,250 | 5.06% | 0% | 50% |
| 5 years and within 10 years | 44,417 | 9.66% | 0% | 75% |
| 10 years and within 15 years | 40,917 | 8.90% | 0% | 95% |
| 15 years and within 20 years | 48,417 | 10.53% | 0% | 95% |
| 20 years and within 25 years | 59,591 | 12.96% | 0% | 95% |
| Over 25 years | 37,583 | 8.17% | 0% | 95% |
| | 459,841 | | | |

25. This strategy does not breach any of these prudential indicators.

