

CABINET

DATE	30 th November 2023
REPORT OF	Councillor Stephen Harness, Portfolio Holder for Finance, Assets and Resources
RESPONSIBLE OFFICER	Sharon Wroot, Executive Director – Place and Resources
SUBJECT	Flexible Use of Capital Receipts Strategy – 2023/24 Update
STATUS	Open
FORWARD PLAN REF NO.	Not included on the Forward Plan – to be considered under the Special Urgency rules of the Constitution with the permission of the Leader of the Council and the Chair of the Economy Scrutiny Panel.

CONTRIBUTION TO OUR AIMS

The Council has two clear strategic priorities – Stronger Economy and Stronger Communities. In order to achieve these priorities, the Council needs to have a clear and robust financial plan which focusses on long term financial sustainability.

EXECUTIVE SUMMARY

The updated Flexible Use of Capital Receipts Strategy outlines how the Council plans to utilise additional capital receipts to fund transformation. The document focuses on how the Council is generating ongoing revenue savings through investing in and supporting change.

RECOMMENDATIONS

It is recommended that Cabinet:-

- 1) Supports of the application of additional capital receipts to fund the transformational programme detailed within the updated strategy.
- 2) Refers the updated strategy to Full Council for approval

REASONS FOR DECISION

The Council must determine how it is to operate within its forecast financial resources over the medium term. To comply with its legal obligations, the Council must establish a balanced financial position.

1. BACKGROUND AND ISSUES

- 1.1 The most recent Local Government financial settlement extended the Council's flexibility to utilise capital receipts to fund the revenue costs of transformation. This flexibility now runs to the end of the 2024/25 financial year.
- 1.2 Council approval of the use of this flexibility is required on an annual basis, with plans published on the Council's website and notification of planned use

sent to The Department for Levelling Up, Housing and Communities (DLUHC). Any changes to the Strategy must be considered and approved by Full Council as it relates to the overall budget framework.

- 1.3 As part of the budget approved in February 2023, the Council signified its intention to make use of the flexibility for 2023/24, largely to support the well documented and ongoing transformational activity within children's services. These assumptions were factored into the Capital Investment Programme and within asset disposal plans.
- 1.4 At the time the 2023/24 budget was established, additional support from Department for Education (DfE) to support ongoing transformation activity within Children's services was anticipated. A request for additional funding from DfE to support transformation activities was made following ongoing engagement with the Department. However, due to the Department's own financial constraints only very limited funding has been secured to date during 2023/24.
- 1.5 The Council's overall financial performance continues to be impacted significantly by issues in relation to children's services; notably higher than expected demand, reliance on agency staffing and increased placement costs. Whilst we are seeing positive signs in terms of demand and trajectories, the overall agenda is substantial and requires further investment to support change over a sustained period.
- 1.6 The Council has generated a significant in-year capital receipt associated with a land transaction and disposal as part of the South Humber Investment and Infrastructure Programme (See separate capital report).
- 1.7 As a consequence, it is proposed that the flexible use of capital receipt target included within the 2023/24 budget is increased from £5M to £9M.
- 1.8 It is recommended that the additional £4M funding be applied to support a range of transformation activities including additional case closure and project teams, support for the Sector Led Improvement Partner, additional commissioning and central support and the costs associated with the recent service restructure.
- 1.9 Assumptions in relation to the flexible use of capital receipts in 2024/25 will be considered as part of the refresh of budget and medium term financial plan in February 2024.
- 1.10 Further detail of the proposed investments and associated savings are provided within the updated strategy (Appendix 1).

2. RISKS AND OPPORTUNITIES

- 2.1 The Council must avoid non-compliance with its fiduciary responsibilities to set a robust, balanced budget, maintain appropriate levels of reserves and secure value for money in service delivery.
- 2.2 The Flexible Use of Capital Receipts provides the Council with an opportunity

to support additional change and transformation and deliver ongoing revenue savings.

3. OTHER OPTIONS CONSIDERED

- 3.1. Additional capital receipts generated could alternatively be used to write down the Capital Financing Reserve with associated benefits in terms of reduced capital financing costs (comprising of minimum revenue provision and interest).
- 3.2. However, the write down of the capital Financing Reserve would not support the transformation required within Children's services and ultimately lead to additional service delivery costs over the medium term.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

- 4.1. There is an expectation from the DfE and the commissioner that the Council invest in change and transformation.
- 4.2. A decision not to invest in transformation would have potential negative reputational implications for the Council.

5. FINANCIAL CONSIDERATIONS

- 5.1. The increased flexible use of capital receipts application will be funded through capital receipts generated from the sale of land at Pioneer Business Park.
- 5.2. The Council's 2023/24 revenue budget would be increased by £4M with the additional funds applied to generate revenue savings in future financial periods.
- 5.3. The updated strategy will help to protect the long-term financial standing of the Council by delivering long term revenue savings and reducing the need to draw upon reserves to fund transformational activities.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

- 6.1. The Council continues to face significant demand pressures within children's services.
- 6.2. The Council is working with partners to deliver an improvement programme designed to address areas of weakness in the system. This will improve outcomes for children and reduce financial pressures over time.
- 6.3. The application of capital receipts to fund transformational activity will support delivery of the programme and improved outcomes for children.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

- 7.1. There are no direct climate change or environmental implications arising from the recommendations within this report.

8. CONSULTATION WITH SCRUTINY

- 8.1. The updated Flexible Use of Capital Receipts Policy is subject to Full Council approval and therefore consultation with scrutiny is not necessary.

9. FINANCIAL IMPLICATIONS

- 9.1. As detailed within the report.

10. LEGAL IMPLICATIONS

- 10.1. In February 2021, the Secretary of State announced, alongside the local government finance settlement, the continuation of the capital receipts flexibility programme for a further three years, to give local authorities the continued freedom to use capital receipts from the sale of their own assets to help fund the revenue costs of transformation projects and release savings.

- 10.2. Accordingly, the Secretary of State directed, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that the local authorities treat as capital expenditure, expenditure which:

- 10.2.1. 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
- 10.2.2. is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.
- 10.2.3. is not incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments.

- 10.3. In further exercise of the Secretary of State’s powers under section 20 of the Act, it is a condition that expenditure treated as capital expenditure in accordance with it only be met from capital receipts, within the meaning of section 9 of the Act and regulations made under that section, which have been received in the years to which this direction and the previous direction applies.

- 10.4. It is considered that the proposals outlined within the updated flexible use of capital receipts policy are compliant with the Local Government Act 2003 and subsequent Secretary of State’s directions.

11. HUMAN RESOURCES IMPLICATIONS

- 11.1. There are no direct human resources implications arising from

12. WARD IMPLICATIONS

- 12.1. All wards affected.

13. BACKGROUND PAPERS

- 13.1. Budget, Finance and Business Plan 2023/24 – 2025/26

<https://democracy.nelincs.gov.uk/wp-content/uploads/2023/01/Budget-Finance-and-Commissioning-Plan-PDF-1395KB.pdf>

14. CONTACT OFFICER(S)

14.1. Sharon Wroot
Executive Director, Place and Resources

COUNCILLOR STEPHEN HARNESS

PORTFOLIO HOLDER FOR FINANCE, RESOURCES AND ASSETS

Appendix 1
2023/24 Flexible Use of Capital
Receipts
(Update – November 2023)

Flexible Use of Capital Receipts (updated)

Introduction

The Government's 2016/20 Local Government financial settlement provided local authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility has since been extended for the period 2022/23 to 2024/25. To take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with future Strategies included within future Annual Budget documents.

The Direction

The Direction issued by the Secretary of State under Sections 16(2)(b) of the Local Government Act specifies that Local Authorities can treat as capital expenditure, expenditure which:

- is incurred by the Authority 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”
- is properly incurred by the Authority for the financial years that begin on 1 April 2016 to 1 April 2024

The extension of the existing flexibility from 2022/23 onwards was updated in August 2022.

It is a condition of the Secretary of State's direction that the flexible use of capital receipts in accordance with the direction only applies to capital receipts which have been received in the years to which the direction applies.

Flexible Use of Capital Receipts (updated)

The Council's Strategy

The Council intends to make use of the flexibility in 2023/24 and has been factored into the Capital Investment Programme and within asset disposal plans, as the Council can only use capital receipts from the disposal of property, plant and equipment received in the year in which this flexibility is offered.

Council approval of the use of this flexibility is required on an annual basis, with plans published on the Council's website and notification of planned use sent to The Department for Levelling Up, Housing and Communities (DLUHC). Any in year updates to the Strategy are required to follow the same governance.

Governance and approval

The Council's flexible use of capital receipts to fund transformational activity will continue to be subject to development of robust business cases. Business cases will be required to demonstrate that:

- the initiative will transform service delivery.
- generate on-going future savings or reduce future costs; and
- the costs being funded are implementation or set up costs and not ongoing operational costs.

Flexible Use of Capital Receipts (Updated)

Summary of planned receipts

The Council is budgeting for the following capital receipts during 2023/24. It should be noted that the original target of £5.0M has been increased to £9.0M following the disposal of significant land interests.

	2023/24 Original £m	2023/24 Revised £m
Capital Receipts	5.0	9.0

Capital receipts to be generated from the following areas:-

- Operational estate (to support wider property rationalisation and efficiency plans and drive footfall within Town Centre)
- Former school playing fields (to support and enable housing development within the Borough)
- Commercial land (to accelerate economic development initiatives and inward investment)

The opportunity to use flexible use of capital receipts has been extended to 2024/25 and will be considered as part of the 2024/25 Budget and Medium Term Financial Plan refresh.

Flexible Use of Capital Receipts (updated)

Summary of planned use

The Council intends to use capital receipts to fund transformation within Children's Services. When the original strategy was brought forward in February 2023, certain assumptions were made around the provision of external DfE funding. Therefore additional funding has been allocated to support a range of initiatives. Most notably, additional funding has been allocated for case closure / additional project teams and commissioning and central support. Further detail is set out below.

	2023/24 Original £m	2023/24 Revised £m
ICT Investment and Digital Approach	1.1	1.3
Newly Qualified Social Worker Programme	0.6	0.6
Social Worker Academy	0.4	0.4
Overseas Social Worker Induction	0.9	0.9
Case Closure and additional Project Teams	0.8	3.6
Recruitment and Retention Campaign	0.2	0.2
High Intensity Support	0.6	0.6
Fostering and Children Support	0.4	0.4
Sector Led Improvement Partner support	-	0.3
Commissioning and central support	-	0.4
Children's restructuring costs		0.3
Total Investment	5.0	9.0

These investments are non recurrent in nature. Further investment required in 2024/25 will be considered as part of the refresh of budget and medium term financial plan in February 2024.

Flexible Use of Capital Receipts (updated)

Summary of savings

The estimated savings from the transformational activity within Children's Services over this MTFP period and beyond is -

	2023/24 £m	2024/25 £m
Reduction in Agency Costs	2.5	4.3
Reduction in Placement Costs	1.8	1.8
Total Estimated Savings	4.3	6.1

These figures will be updated as part of the refresh of the Strategy in 2024/25.

Plans and actual spend and savings achieved will be reported to DLUHC and published in accordance with guidance.

Impact on Prudential Indicators

The prudential indicators impacted as a result of that will be impacted by this strategy are set out below:

- The Capital Financing Requirement is not directly increased beyond the previous MTFP, as there is now a plan to generate additional capital receipts to fund the transformational activity.
- Financing costs as a percentage of net revenue stream would also not increase beyond the previous MTFP due to the additional capital receipts to be generated to fund the activity. Further, the longer term revenue savings anticipated to be generated will help the Council achieve a balanced budget position
- The prudential indicators show that this strategy is affordable and will not impact on the Council's operational and authorised borrowing limits