

## Essex County Council

### Flexible Use of Capital Receipts Strategy for 2021/22

#### Introduction

A Capital receipt as defined in regulations is any sum received in relation to disposal of an asset for which, if the authority had been acquiring the asset, expenditure on its acquisition would have been classified as 'capital'. It also includes repayments of loans, grants or other financial assistance given towards capital expenditure incurred by others.

Limitations on use require that Capital Receipts can only be spent on; Capital financing of new expenditure, repayment of debt (reduction of the CFR), or Funding costs of disposal

As part of the finance settlement for 2016/17, the government announced new flexibilities giving local authorities greater freedoms with how capital receipts received in 2016/17, 2017/18 and 2018/19 could be utilised.

This flexibility was extended in the 2018/19 finance settlement as part of the Local Government Finance Settlement for a further three years until 2021/22.

The Secretary of State has extended this flexibility on the basis that authorities are best placed to decide which projects will be most effective for their areas, with the stipulation that capital receipts are only applied to fund projects that will generate ongoing savings.

A requirement of this flexibility is that the County Council approve a Flexible Use of Capital Receipts Strategy and the business cases for their use.

There is no prescribed format for the Strategy, but the underlying principle is to support the delivery of more efficient and sustainable services by extending the use of capital receipts to finance costs of efficiency initiatives that deliver significant savings. A list of each project should be incorporated in the strategy along with the expected savings each project is expected to realise.

#### Rules of Qualification

Statutory Guidance on the Flexible Use of Capital Receipts is clear that capital receipts may only be used for revenue expenditure if it is qualifying expenditure

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.

Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure.

The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Government direction also contains the following additional caveats:

- 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 used.
- The direction makes it clear that local authorities cannot borrow to finance qualifying expenditure, and local authorities may not use their existing stock of capital receipts to finance the revenue costs of reform.

It is a question of fact whether or not a project qualifies for the flexibility. The Local authority is not required to meet all qualifying expenditure from capital receipts, but it cannot use the flexibility other than in accordance with a strategy approved by full Council on the recommendation of the Cabinet.

### **Strategy for use of Flexibility – 2021/22**

Essex County Council will only use the flexibility on projects which:

- Are for qualifying expenditure
- Are supported by a robust business case demonstrating future savings or demand reduction
- Do not adversely impact on prudential indicators unless specifically justified in this strategy
- Are approved in this strategy as such a project.

### **Planned use of flexibility – 2021/22**

A short description of each project and the expected benefits is set out in the following section, with an initial estimate of the qualifying costs and the potential future saving in the table below.

There is one project for 2021/22:

#### **Corporate Systems Programme (CSP)**

This project will move the Council from current corporate IT solution to Oracle Fusion Cloud to provide a simpler system with improved functionality, improved user

experience across all user groups (professional and end users), enhanced reporting capabilities, as well as facilitating new ways of working in the current environment.

Revenue cost avoidance is presented by not having to upgrade the existing product, and further ongoing savings are expected as a result of implementing the new solution due to additional productivity and efficiency benefits potential as well as facilitating new ways of working in the current environment.

Whilst the full ongoing benefit / savings projections are expected to be fully detailed by mid-March 2021, a commitment to savings of £600,000 has already been agreed in order to satisfy further cost avoidance of additional running costs identified when the new solution goes live.

Investment initiative	Total scheme spend (£m)	2020/21 scheme spend (£m)	2021/22 scheme spend proposed for Flexible Use of Capital Receipts	Associated Revenue savings (£m)		
				2020/21	2021/22	2022/23
Corporate Systems Programme - Tranche 1	13.6	3.6	1.3			0.6

### Strategy on the use of the Flexibility for 2021/22

For 2021/22 the Council will use the flexibility to fund £1.3m qualifying transformation expenditure from the project summarised above.

Any change to this will require the approval of full council.

### Impact on prudential indicators

The £1.3m will be financed using Capital Receipts currently ringfenced in the Usable Capital Receipts Reserve, which are not used to finance the capital programme in this year. Therefore, this strategy will not result in any additional requirement for external borrowing and the use of the flexibility in the manner authorised by this strategy does not impact on the prudential borrowing indicators.

### Review of Previous Years' use of the Flexibility

It is a requirement that all strategies include details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised.

In 2020/21, the Council approved Flexible Use of Capital Receipts strategy included £4.9m of qualifying expenditure from the Corporate Systems Project (CSP) - the same project being requested in 2021/22.

The planned transformation expenditure for this project in the year 2020/21 has been revised downwards from the £4.9m referenced in the approved strategy to £3.6m. The overall cost of the project remains at £13.6m.

The unused 2020/21 Flexible Use of Capital Receipts balance of £1.3m remains ringfenced in the Usable Capital Receipts Reserve for the purpose of Flexible Use of Capital Receipts and is to be carried forward into 2021/22 for use against the same project.

Given the project is still in the design and implementation phase, planned savings are not due to be delivered until 2022/23.

Approved expenditure in the 2020/21 Flexible Use of Capital Receipts Strategy was as follows:

Investment initiative	Total scheme spend (£m)	2020/21 planned scheme spend (£m)	Associated Revenue savings (£m)		
			2020/21	2021/22	2022/23
Corporate Systems Programme - Tranche 1	13.6	4.9			0.6