

## **Efficiency Strategy for Use of Capital Receipts 2016/17**

As part of the Local Government Spending Review announced on the 17<sup>th</sup> December, the Government has provided Councils with the flexibility to use Capital Receipts received in the financial years 2016/17, 2017/18 and 2018/19 to fund transformation and restructuring of services in order to achieve efficiencies and revenue cost savings.

### Definition of Qualifying Expenditure

The Government has defined expenditure qualifying for funding from capital receipts as follows:

*“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 or to improve the quality of service delivery in future years. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility. Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.”*

A list of examples of qualifying expenditure as set out in the government guidance is given in Appendix O ii), but this list is not exhaustive.

### Requirements of the Strategy

In order to qualify for this flexibility the authority must prepare an Efficiency Strategy outlining how it plans to use of capital receipts to fund qualifying expenditure. The Strategy must be approved by full Council and must include the following information:

- A list of projects for which capital receipts are to be used;
- A breakdown of funding for each project between capital receipts and other sources;
- An analysis of the savings expected to be achieved as a result of each project;
- The impact on the local authority’s Prudential Indicators for the forthcoming year and subsequent years.

From 2017-18 onwards, the Strategy should also contain details of 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 cost/benefit analysis.

The initial strategy must be approved by the 31<sup>st</sup> March 2016. This may be updated at any point in the year to take account of any change to the estimated level of capital receipts available and their planned use. However any amendments to the strategy must also be approved by full Council.

### Projects to be Funded from Capital Receipts in 2016/17

The main capital receipt expected in 2016/17 is £2.9 million from the sale of the former Pound Lane depot (which is dependent on the success of the planning application which has been submitted for the development of the site).

Our interpretation of the definition of qualifying expenditure includes:

- Exit costs for staff being made redundant from 1 April 2016 onwards in order to achieve revenue savings;
- Work planned to be undertaken from April 2016 onwards to transform the way services are delivered (e.g. developing and piloting new ways of delivering Adult Social Care). This includes work which may have already started and which may already be allowed for in the 2016/17 revenue budget;
- Other additional costs associated with implementing savings such as mothballing, disposing of or changing the use of buildings which are no longer needed for their existing operational purposes or one off payments for early termination of contracts.

The definition does not include the cost of continuing to provide existing services until it is practically possible to end them (i.e. the part year shortfall in respect of savings which can only be implemented part way through the year). However if capital receipts are used to fund qualifying costs which are already allowed for in the revenue budget, this will create an additional saving which will offset the part year shortfall from the implementation of some planned savings.

Qualifying projects currently planned to be funded from capital receipts in 2016/17 are as follows:

<b>Project</b>	<b>Capital Receipts funded / £m</b>	<b>Other sources / £m</b>	<b>Expected Annual Savings / £m</b>
Expected cost of redundancies incurred in the financial year 2016/17	<b>1.9</b>	<b>0</b>	<b>2.7</b>
Transformation of service provision	<b>1</b>	<b>0</b>	<b>0.5</b>

The strategy will be amended as and when necessary to give a more detailed breakdown of projects to support the transformation of service provision.

### Impact on Prudential Indicators

If £2.9 million capital receipts are used to fund the set out above costs in 2016/17, this will mean that it is necessary to borrow £2.9 million more in 2016/17 to fund capital expenditure than was originally planned. In order to ensure that this additional borrowing is affordable within the proposed revenue budget for 2016/17 and future years, the capital financing strategy has been amended as follows:

1. By taking account of the fact that PWLB interest rates have decreased slightly since the original capital strategy for 2016/17 was compiled;
2. By increasing the period over which we plan to borrow to fund some assets (e.g. from 25 to 30 years and from 40 to 50 years);
3. By reprofiling the annual provision for the future repayment of maturity loans (i.e. reducing the amount planned to be set aside over the next five years, but increasing the amount planned to be set aside over the following five years, by which time we expect that borrowing costs to be increasing more slowly);
4. By anticipating that additional capital receipts or revenue income from the disposal of surplus assets will become available in 2017/18 and/or 2018/19 to help meet the cost of the capital programme.

These changes are reflected in the Investment and Borrowing Strategy and the Capital Strategy and Programme, also on this agenda.

**Examples of Qualifying Expenditure Given in Government  
Guidance December 2015**

- Sharing back-office and administrative services with one or more other council or public sector bodies
- Investment in service reform feasibility work, e.g. setting up pilot schemes
- Collaboration between local authorities and central government departments to free up land for economic use
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation
- Sharing Chief-Executives, management teams or staffing structures
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible
- 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
- 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
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others)
- 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.