



Department for
Communities and
Local Government

Proposals for the use of capital receipts from asset sales to invest in reforming services

Government response to the consultation

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Chapter 1

Introduction

1.1 On 27 June 2013, the Government published a spending review document 'Investing in Britain's future', page 41¹ of the document stated that:

To incentivise asset sales and support investment in transforming local services, the Government will also consult on allowing local authorities some flexibility to use their receipts from asset sales to pay for the one-off costs of service reforms.

1.2 The Government subsequently published a consultation ""Proposals for the use of capital receipts from asset sales to invest in reforming services"² on 25 July 2013. The proposal has two broad aims:

- Encourage good asset management planning and incentivise the appropriate sale of local authority assets so that they are put into productive use and support growth; and
- To enable additional resources, from local authority asset sales, to give a time limited one-off capital receipt flexibility for reforming, integrating or restructuring services.

1.3 The Government consulted with the sector with the purpose of gathering evidence and opinion from the local government sector. In particular to gauge:

- Support for the policy proposal;
- How it could work in practice, and;
- The possible level of interest, to help inform decisions on the level of expenditure that could be made available.

1.4 This document summarises the views received and provides the Government's formal response.

¹ <https://www.gov.uk/government/publications/investing-in-britains-future>

² <https://www.gov.uk/government/consultations/proposals-for-the-use-of-capital-receipts-from-asset-sales-to-invest-in-reforming-services>

Chapter 2

Government's response

- 2.1** In formulating the shape and size of the flexible use of capital receipts policy, the Government has considered carefully the responses to the consultation and has continued to work with the local government sector to implement this policy.
- 2.2** It is clear from the responses to the consultation paper that the principle to allow the proposed flexibility would be welcomed overwhelmingly by the majority of respondents, with some 87% backing the policy.
- 2.3** The Government therefore announced at the Autumn Statement that

“To incentivise asset sales and support investment in transforming local services, the Government will allow local authorities some flexibility to use £200m of receipts from asset sales across 15/16 and 16/17 to pay for the one-off costs of service reforms. Local authorities will be able to bid for a share of the flexibility”.

Implementation

- 2.4** The Government considers that a bid based competitive option would be the best mechanism to allow the level of expenditure to be controlled and focused on local authorities with the best proposals.
- 2.5** The flexibility on the use of capital receipts will be delivered through capitalisation, which is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It is a relaxation of the accounting convention that revenue costs should be met from revenue resources.
- 2.6** Permission for a flexible use of capital receipts will be given to each authority through a capitalisation direction, which the Secretary of State has the power to issue under section 16(2)(b) of the Local Government Act 2003.

Level of funding

- 2.7** As capitalisation scores as Public Sector Current Expenditure in the national accounts it impacts directly on the deficit reduction programme. Therefore the Government has decided to allow up to £200m of expenditure from a flexible use of capital receipts across 2015/16 and 2016/17.

Limits to the flexible use of capital receipts

2.8 An aim of the policy is to encourage new asset sales so capital receipts obtained prior to the issue of the consultation will not be allowed to be used for this purpose.

2.9 To provide sufficient time to sell an asset the revenue expenditure will be allowed, by condition, over a 2 year period from 1 April 2015 to the 31 March 2017.

Requirements for the flexible use of capital receipts

2.10 A clear aim of this policy is to encourage additional asset sales. These assets would not necessarily need to be directly related to the service reforms. Local authorities will need to make as part of a bid process an assessment identifying the extent to which the asset sales are additional, i.e. would not otherwise have occurred in the timeframe.

Bid prospectus

2.11 The Government has published alongside this response a prospectus inviting bids from authorities to access the flexible use of capital receipts³.

³ Add reference to bid prospectus

Chapter 3

Responses to consultation questions

Question 1- Do you consider that the proposal to allow some flexibility for use of capital receipts from new asset sales will provide you with a useful additional flexibility for a one-off revenue costs associated with restructuring and reforming local services to deliver longer term savings?

- 3.1 Of the 135 responses to the consultation, 118 (87%) respondents considered that the flexibility would provide local authorities with a useful flexibility to meet one-off revenue costs associated with restructuring and reforming local services.
- 3.2 The respondents that did not specifically express support for the flexibility were mainly of the opinion that it would not be of use to their individual authority, either because they already had an asset plan in place, or they had no suitable assets to consider for disposal.
- 3.3 37 respondents (27%) specifically stated that the proposed flexibility should also be applied to capital receipts already held by authorities.
- 3.4 The Government agrees with the majority of the respondents that the proposed flexibility would be useful. However, in regard to the opinion to use existing capital receipts the Government's position is that this policy is designed to encourage local authorities to free up and sell surplus assets – rather than spending money they have already raised.

Question 2- To evidence base the response to question 1, we would welcome (in no more than 400 words) your initial potential ideas for changes that you consider would benefit from the flexible use of capital receipts policy?

Information could include the level of funding required, type of asset to be disposed, details of the service transformation and savings that could be achieved and future use of the asset.

- 3.5 Although respondents to the consultation did not give any solid evidence as to schemes they as individual bodies would use the capital receipt flexibility for, the following were given as suggestions for potential assets to dispose of and potential transformation costs:

Assets for disposal

- council buildings and offices
- service facilities
- depots and operational sites
- cleared sites
- former garage sites
- land zoned or assigned for development
- investment properties
- industrial properties
- finance leases

Transformation projects

- senior manager review
- renewable energy schemes
- shared services
- company models
- trust models
- joint ventures
- outsourcing
- service re-design/integration
- ICT improvement/partnerships
- partnership development
- property asset rationalisation
- staff restructuring
- devolution of services
- community asset transfer
- sharing of functions between counties and districts

Question 3- Do you agree that these criteria should be used, or would you suggest alternative or additional measurements to decide a bid based approach and ensure a fair distribution for the proposed flexibility?

3.6 Asked about the potential criteria that may be used in any bid based approach, the majority of respondents who answered the question, some 101 authorities, were not in favour of the proposed criteria (69 or 51% of all respondents); with only 32 in favour (24% of all respondents.)

3.7 This is mainly because the majority of respondents (86 or 64%) were firmly against using a bid based approach for the flexibility. The comments backing this are summarised below:

- Bid process is too bureaucratic;
- To submit a bid would be a burden on authorities;
- No certainty about the outcome of a bid process.

3.8 25 or 19% of respondents suggested that a 'share' based approach would be preferable. Suggestions as to how the overall level which Government would permit to be capitalised should be shared among authorities:

- Based on an authority's asset base,
- Based on an authority's revenue budget ,
- Based on an authority's annual capital receipts

3.9 Concern was also expressed that asset sales may be difficult to achieve at the current time, which could delay or even cancel the proposed transformation project.

3.10 Other alternative suggestions to a bid based approach from authorities included the amending of capital finance regulations (backed by 50 or 37%) of respondents; and the provision of guidance or local policies in applying the flexibility (backed by 47 or 35%.)

3.11 The Government carefully considered the points that were put forward by local authorities. However, the Government's position is that given that there will be a need to carefully control the level of expenditure at the heart of this policy; a key aim of the policy includes ensuring that schemes that may be allowed will need to offer value for money.

3.12 Therefore the Government considers that a bid based competitive option would be the best mechanism to achieve this, as:

- It allows the level of expenditure to be controlled and focused on local authorities with the best proposals.
- It allows each application to be judged on its individual merits; ensures that restructuring/service transformation is at the heart of any proposal; and that the winning bids provide value for money; and
- It allows Government to monitor the take up of the proposal and the service transformation plans which it has enabled.

Question 4 - Do you agree that a direction letter mechanism would be the best method of delivering the aims of the policy proposal?

3.13 114 respondents answered the question and were narrowly in favour the direction letter implementation mechanism if a bid based approach was pursued; with 62 or 46% in favour and 52 or 39% against.

3.14 Because the decision has been made to have a competitive bid based approach, the Government will implement the flexibility through directions to the successful authorities.

Question 5 - Is the proposed timetable realistic to allow for the practical implementation of the flexible use of capital receipts proposal?

- 3.15** The majority of respondents to this question felt that the timetable was not realistic; respondents expressed concern that a tight timetable, such as that proposed, would be pushing councils to sell assets quickly, which may possibly not achieve best value for themselves and the tax payer. As such 95 or 70% of respondents expressed dissatisfaction with the proposed timetable as it stood, with 22 or 16% of respondents satisfied.
- 3.16** Other comments received from authorities included the preference for the flexibility not to be tied to specific asset sales – as this suggested that such a requirement could lead to rushed, poor value disposals.
- 3.17** The Government has listened very carefully to local authorities opinions of any future proposal. As such the Government is allowing two financial years for the expenditure to take place and will not link the capitalisation direction to the sale of a particular asset.

Question 6 - If you felt the timetable was not realistic, what changes would you make to the proposed implementation of the policy to allow for the practical delivery of the flexible use of capital receipts?

- 3.18** As shown above in the feedback to question 5, many respondents were opposed to the timetable proposed in the consultation document. Of these, 72 (53%) suggested that the timetable should either be more flexible (56 or 41%) or that the proposal should be made permanent (16 or 12%).
- 3.19** Suggestions for a more flexible timetable included the following:
- proposals should be introduced immediately,
 - two-year programme of identifying assets, disposal and spend,
 - three-year programme,
 - five-year programme; and
 - the proposal should be permanent.
- 3.20** As set out in the response to question 5, the Government has listened carefully and allowed further flexibilities within the timetable to assist local authorities.

Annex A

Breakdown of responses to the consultation

Total responses: 135

Breakdown by type:

District Council	40
County Council	19
Unitary Council	18
Metropolitan Borough Council	26
London Borough	11
Fire and Rescue Service	7
Local Authority Association	3
Special Interest Group	4
Government Department	1
Professional Body	2
Police and Crime Commissioner	1
Treasury Management Consultants	3