



Department for  
Communities and  
Local Government

# Draft Guidance on the Flexible Use of Capital Receipts



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December 2015

ISBN: 978-1-4098-4751-9

# Contents

**Part 1** of this document provides an informal commentary on Part 2.

**Part 2** contains the statutory guidance to which local authorities must have regard.

# Part 1

## Informal commentary on the guidance on the flexible use of capital receipts

[References to the paragraphs in the formal guidance are in square brackets]

### **Power under which the guidance is issued [1.1]**

1. The **Local Government Act 2003 ('the Act')**, section 15(1) requires a local authority '... to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify ...'.
2. The guidance on use of capital receipts flexibility in Part 2 of this document is issued under section 15(1) of the Act and authorities are therefore required to have regard to it.
3. Two codes of practice issued by the *Chartered Institute of Public Finance and Accountancy (CIPFA)* contain guidance on capital receipts and local authority accounting that complement the DCLG guidance. These publications are:
  - *The Prudential Code for Capital Finance in Local Authorities*
  - *The Code of Practice on Local Authority Accounting*
4. Local authorities are required to have regard to the current edition of *Treasury Management in Public Services: Code of Practice and Sectoral Guidance Notes* by regulation 2 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]* and to the *Local Authority Accounting Code* as proper practices for preparing accounts under section 21(2) of the Act.

### **Application [3.1-3.2]**

5. This guidance should be read alongside the relevant Direction issued by the Secretary of State. Separate Directions will be issued to local authorities (including Fire and Rescue Authorities), to Police and Crime Commissioners, and to the Greater London Authority / Transport for London.
6. This guidance applies with effect from 1 April 2016 to 31 March 2019 – i.e. to the financial year 2016-17 and for each subsequent financial year to which the flexible use of capital receipts direction applies.
7. 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 sale of property, plant and equipment 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.

### **Qualifying expenditure [4.1-4.3]**

8. The Secretary of State believes that individual authorities and groups of authorities are best placed to decide which projects will be most effective for their areas. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net service expenditure.
9. A list of types of project that would qualify for the flexible use of capital receipts is included in the guidance. This list is not meant to be prescriptive or exhaustive and individual authorities who have projects that will generate ongoing savings that are not included in the list provided in the guidance can apply the flexibility to fund those projects.

### **Accountability and transparency [5.1-5.8]**

10. The Secretary of State believes that it is important that individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.

# Part 2

## Guidance on the flexible use of capital receipts

### Issued under section 15(1)(a) of the Local Government Act 2003

#### (1) Power under which the guidance is issued

1.1 The following guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003*.

#### (2) Definition of terms

2.1 In this guidance, **the Act** means the *Local Government Act 2003*.

2.2 **Local authority** has the meaning given in section 23 of the Act (and in regulations made under that section).

2.3 **Capital receipt** has the meaning given in section 9 of the Act (and in regulations made under that section).

2.4 **Qualifying expenditure** means expenditure on a project where incurring up-front costs will generate ongoing savings. The main part of this guidance details the types of project that will generate qualifying expenditure.

2.5 The **direction** means a direction made under section 16(2)(b) of the Act, to allow named local authorities to treat qualifying expenditure as being capital expenditure.

#### (3) Application

##### Effective date

3.1 This guidance applies with effect from 1 April 2016, for the period for which flexible use of capital receipts will apply, which will be set out in the direction.

##### Local authorities

3.2 This guidance applies to all local authorities in England named in the Directions issued by the Secretary of State.

## **(4) Qualifying expenditure**

### **Types of qualifying expenditure**

4.1 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.

4.2 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.

### **Examples of qualifying expenditure**

4.3 There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- 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.

## **(5) Accountability and transparency**

### **Preparation**

5.1 For each financial year, a local authority should ensure it prepares at least one Efficiency Strategy (“the Strategy”) in accordance with the timetable in paragraphs 5.6 and 5.7.

### **Content**

5.2 As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility, that it details the split of up front funding for each project between capital receipts and other sources, and that on a project by project basis, a cost benefit analysis is included to highlight the expected savings. The Strategy should report the impact on the local authority’s Prudential Indicators for the forthcoming year and subsequent years.

5.3 From the 2017-18 Strategy and in each future year, 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 cost/benefit analysis.

5.4 The Strategy may also include any other matters considered to be relevant.

### **Approval**

5.5 The Strategy should be approved by the full council. For authorities without a full council, the Strategy should be approved at the closest equivalent level.

### **Timing**

5.6 For any financial year an efficiency Strategy (“the initial Strategy”) should be prepared and approved before the start of the year.

5.7 The initial Strategy may be replaced by another Strategy (“the revised Strategy”) at any time during the year, on one or more occasions, subject to the same process of approval. The initial Strategy should specify the circumstances in which a revised Strategy is to be prepared, but a revised Strategy may be prepared in other circumstances, if at any time it is considered to be appropriate. When setting a revised Strategy its impact on the local authority’s Prudential Indicators shall be considered and whether it is necessary to amend the Prudential Indicators at the same time.



## **Publication**

5.8 The initial Strategy and any revised Strategy should, once approved, be made available to the public free of charge, in print or online.



Department for  
Communities and  
Local Government

2 Marsham Street  
London SW1E 4DF

17 December 2015

**Dear Chief Finance Officers: Local Authorities Listed in Annex A**

**LOCAL GOVERNMENT ACT 2003 SECTIONS 16(2)(b) AND 20: TREATMENT OF COSTS AS CAPITAL EXPENDITURE**

1. In the Spending Review 2015, the Chancellor of the Exchequer announced that **to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.**
2. Accordingly, the Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that **the local authorities listed in Annex A** (“the Authorities”) treat as capital expenditure, expenditure which:
  - i. is incurred by the Authorities on **the revenue costs of projects designed to reduce future revenue costs and/or transform service delivery**; and
  - ii. is properly incurred by the Authorities for the years ending 31 March 2017, 31 March 2018, and 31 March 2019.
3. In further exercise of the Secretary of State’s powers under section 20 of the Act, it is a condition of this direction 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 (for current provisions see Part 4 of S.I. 2003/3146, as amended), which have been received in the years to which this direction applies; and
4. This direction is given for the purposes of Chapter 1 of Part 1 of the Act only. It does not convey any other consent that may be required or any view as to the propriety of the expenditure. It is for the Authority to be satisfied

that any amount to which this direction is applied is properly incurred in the financial year concerned.

5. When applying the direction, the Authorities are required to have regard to the *Guidance on Flexible Use of Capital Receipts* issued by the Secretary of State under section 15(1)(a) of the Act.
6. If you have any queries in connection with the above, please do not hesitate to contact the Department for Communities and Local Government at the email address: [capitalreceiptsflexibility@communities.gsi.gov.uk](mailto:capitalreceiptsflexibility@communities.gsi.gov.uk).

Yours sincerely,

**Gareth Caller**

Authorised to sign this direction by the Secretary of State for Communities and Local Government

DRAFT

## Annex A: List of authorities to which this direction applies

English Councils
Adur District Council
Allerdale Borough Council
Amber Valley Borough Council
Arun District Council
Ashfield District Council
Ashford Borough Council
Aylesbury Vale District Council
Babergh District Council
London Borough of Barking and Dagenham
London Borough of Barnet
Barnsley Metropolitan Borough Council
Barrow-in-Furness Borough Council
Basildon Borough Council
Basingstoke and Deane Borough Council
Bassetlaw District Council
Bath and North East Somerset Council
Bedford Council (Unitary)
London Borough of Bexley
Birmingham City Council
Blaby District Council
Blackburn with Darwen Borough Council
Blackpool Borough Council
Bolsover District Council
Bolton Metropolitan Borough Council
Boston Borough Council
Bournemouth Borough Council
Bracknell Forest Council
Bradford Metropolitan District Council
Braintree District Council
Breckland District Council
London Borough of Brent
Brentwood Borough Council
Brighton and Hove City Council
Bristol City Council
Broadland District Council
London Borough of Bromley

Bromsgrove District Council
Borough of Broxbourne
Broxtowe Borough Council
Buckinghamshire County Council
Burnley Borough Council
Bury Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Cambridge City Council
Cambridgeshire County Council
London Borough of Camden
Cannock Chase District Council
Canterbury City Council
Carlisle City Council
Castle Point Borough Council
Central Bedfordshire Council
Charnwood Borough Council
Chelmsford City Council
Cheltenham Borough Council
Cherwell District Council
Cheshire East Council (Unitary)
Cheshire West and Chester Council
Chesterfield Borough Council
Chichester District Council
Chiltern District Council
Chorley Council
Christchurch Borough Council
City of London
City of Nottingham Council
Colchester Borough Council
Copeland Borough Council
Corby Borough Council
Cornwall Council (Unitary)
Cotswold District Council
Coventry City Council
Craven District Council
Crawley Borough Council
London Borough of Croydon
Cumbria County Council
Dacorum Council
Darlington Borough Council
Dartford Borough Council

Daventry District Council
Derby City Council
Derbyshire County Council
Derbyshire Dales District Council
Devon County Council
Doncaster Metropolitan Borough Council
Dorset County Council
Dover District Council
Dudley Metropolitan Borough Council
Durham County Council
London Borough of Ealing
East Cambridgeshire District Council
East Devon District Council
East Dorset District Council
East Hampshire District Council
East Hertfordshire District Council
East Lindsey District Council
East Northamptonshire Council
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex County Council
Eastbourne Borough Council
Eastleigh Borough Council
Eden District Council
Elmbridge Borough Council
London Borough of Enfield
Epping Forest District Council
Epsom and Ewell Borough Council
Erewash Borough Council
Essex County Council
Exeter City Council
Fareham Borough Council
Ferland District Council
Forest Heath District Council
Forest of Dean District Council
Fylde Borough Council
Gateshead Metropolitan Borough Council
Gedling Borough Council
Gloucester City Council
Gloucestershire County Council
Gosport Borough Council

Gravesham Borough Council
Great Yarmouth Borough Council
Greater London Authority
Royal Borough of Greenwich
Guildford Borough Council
London Borough of Hackney
Halton Borough Council
Hambleton District Council
London Borough of Hammersmith & Fulham
Hampshire County Council
Harborough District Council
London Borough of Haringey
Harlow Council
Harrogate Borough Council
London Borough of Harrow
Hart District Council
Hartlepool Borough Council
Hastings Borough Council
Havant Borough Council
London Borough of Havering
Herefordshire Council
Hertfordshire County Council
Hertsmere Borough Council
High Peak Borough Council
London Borough of Hillingdon
Hinckley and Bosworth Borough Council
Horsham District Council
London Borough of Hounslow
Huntingdonshire District Council
Hyndburn Borough Council
Ipswich Borough Council
Isle of Wight Council
Isles of Scilly
London Borough of Islington
Royal Borough of Kensington and Chelsea
Kent County Council
Kettering Borough Council
King's Lynn and West Norfolk Borough Council
Kingston-upon-Hull City Council
Royal Borough of Kingston upon Thames
Kirklees Council

Knowsley Metropolitan Borough Council
London Borough of Lambeth
Lancashire County Council
Lancaster City Council
Leeds City Council
Leicester City Council
Leicestershire County Council
Lewes District Council
London Borough of Lewisham
Lichfield District Council
City of Lincoln Council
Lincolnshire County Council
Liverpool City Council
Luton Borough Council
Maidstone Borough Council
Maldon District Council
Malvern Hills District Council
Manchester City Council
Mansfield District Council
Medway Council
Melton Borough Council
Mendip District Council
London Borough of Merton
Mid Devon District Council
Mid Suffolk District Council
Mid Sussex District Council
Middlesbrough Borough Council
Milton Keynes
Mole Valley District Council
New Forest District Council
Newark and Sherwood District Council
Newcastle-upon-Tyne City Council
Newcastle-Under-Lyme District Council
London Borough of Newham
Norfolk County Council
North Devon Council
North Dorset District Council
North East Derbyshire District Council
North East Lincolnshire Council
North Hertfordshire District Council
North Kesteven District Council



North Lincolnshire Council
North Norfolk District Council
North Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire District Council
North Yorkshire County Council
Northampton Borough Council
Northamptonshire County Council
Northumberland Council
Norwich City Council
Nottinghamshire County Council
Nuneaton and Bedworth Borough Council
Oadby and Wigston District Council
Oldham Metropolitan Borough Council
Oxford City Council
Oxfordshire County Council
Pendle Borough Council
Peterborough City Council
Plymouth City Council
Borough of Poole
Portsmouth City Council
Preston City Council
Purbeck District Council
Reading Borough Council
London Borough of Redbridge
Redcar and Cleveland Council
Redditch Borough Council
Reigate and Banstead Borough Council
Ribble Valley Borough Council
London Borough of Richmond upon Thames
Richmondshire District Council
Rochdale Metropolitan Borough Council
Rochford District Council
Rosendale Borough Council
Rother District Council
Rotherham Metropolitan Borough Council
Rugby Borough Council
Runnymede Borough Council
Rushcliffe Borough Council
Rushmoor Borough Council

Rutland County Council
Ryedale District Council
Salford City Council
Sandwell Metropolitan Borough Council
Scarborough Borough Council
Sedgemoor District Council
Sefton Metropolitan Borough Council
Selby District Council
Sevenoaks District Council
Sheffield City Council
Shepway District Council
Shropshire Council - Unitary
Slough Borough Council
Solihull Metropolitan Borough Council
Somerset County Council
South Buckinghamshire District Council
South Cambridgeshire District Council
South Derbyshire District Council
South Gloucestershire Council
South Hams District Council
South Holland District Council
South Kesteven District Council
South Lakeland District Council
South Norfolk District Council
South Northamptonshire Council
South Oxfordshire District Council
South Ribble Borough Council
South Somerset District Council
South Staffordshire Council
South Tyneside Council
Southampton City Council
Southend-on-Sea Borough Council
London Borough of Southwark
Spelthorne Borough Council
St Albans City and District Council
St Edmundsbury Borough Council
St Helens Metropolitan Borough Council
Stafford Borough Council
Staffordshire County Council
Staffordshire Moorlands District Council
Stevenage Borough Council

Stockport Metropolitan Borough Council
Stockton-on-Tees Borough Council
Stoke-on-Trent City Council
Stratford-on-Avon District Council
Stroud District Council
Suffolk County Council
Suffolk Coastal District Council
Sunderland City Council
Surrey County Council
Surrey Heath Borough Council
London Borough of Sutton
Swale Borough Council
Swindon Borough Council
Tameside Metropolitan Borough Council
Tamworth Borough Council
Tandridge District Council
Taunton Deane Borough Council
Teignbridge District Council
Telford & Wrekin Council
Tendring District Council
Test Valley Borough Council
Tewkesbury Borough Council
Thanet District Council
Three Rivers District Council
Thurrock Council
Tonbridge and Malling Borough Council
Torbay Council
Torridge District Council
London Borough of Tower Hamlets
Trafford Metropolitan Borough Council
Tunbridge Wells Borough Council
Uttlesford District Council
Vale of White Horse District Council
Wakefield Metropolitan District Council
Walsall Metropolitan Borough Council
London Borough of Waltham Forest
London Borough of Wandsworth
Warrington Borough Council
Warwick District Council
Warwickshire County Council
Watford Borough Council

Waveney District Council
Waverley Borough Council
Wealden District Council
Wellingborough Borough Council
Welwyn Hatfield Council
West Berkshire Council
West Devon Borough Council
West Dorset District Council
West Lancashire Borough Council
West Lindsey District Council
West Oxfordshire District Council
West Somerset District Council
West Sussex County Council
City of Westminster
Weymouth and Portland Borough Council
Wigan Metropolitan Borough Council
Wiltshire Council (Unitary)
Winchester City Council
Royal Borough of Windsor and Maidenhead
Wirral Council
Woking Borough Council
Wokingham Borough Council
Wolverhampton City Council
Worcester City Council
Worcestershire County Council
Worthing Borough Council
Wychavon District Council
Wycombe District Council
Wyre Council
Wyre Forest District Council
City of York Council
Greater Manchester Combined Authority
The Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority
The Barnsley, Doncaster, Rotherham and Sheffield Combined Authority
The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority
The West Yorkshire Combined Authority

<b>Fire Authorities</b>
Avon Combined Fire and Rescue Authority
Bedfordshire Combined Fire and Rescue Authority
Berkshire Combined Fire and Rescue Authority
Buckinghamshire Combined Fire and Rescue Authority
Cambridgeshire Combined Fire and Rescue Authority
Cheshire Combined Fire and Rescue Authority
Cleveland Combined Fire and Rescue Authority
County Durham and Darlington Fire and Rescue Authority
Derbyshire Combined Fire and Rescue Authority
Devon and Somerset Combined Fire and Rescue Authority
Dorset Combined Fire and Rescue Authority
East Sussex Combined Fire and Rescue Authority
Essex Combined Fire and Rescue Authority
Greater Manchester Fire and Rescue Authority
Hampshire Combined Fire and Rescue Authority
Hereford & Worcester Combined Fire and Rescue Authority
Humberside Combined Fire and Rescue Authority
Kent Combined Fire and Rescue Authority
Lancashire Combined Fire and Rescue Authority
Leicestershire Combined Fire and Rescue Authority
Merseyside Fire and Rescue Authority
North Yorkshire Combined Fire and Rescue Authority
Nottinghamshire Combined Fire and Rescue Authority
Shropshire Combined Fire and Rescue Authority
South Yorkshire Fire and Rescue Authority
Staffordshire Combined Fire and Rescue Authority
Tyne and Wear Fire and Rescue Authority
West Midlands Fire and Rescue Authority
West Yorkshire Fire and Rescue Authority
Wiltshire Combined Fire and Rescue Authority