

Appendix B

1 Background

- 1.1 First announced in the Spending Review 2015, with effect from 2016/17 Local Authorities have had the option to use up to 100% of capital receipts to fund revenue costs of transformation projects and release savings as detailed in the Local Government Act 2003 Sections 16(2)(b) and 20.
- 1.2 In April 2022 the Direction was extended to cover three further financial years, with the flexibility ending at the end of 2024/25 and updated guidance released in August 2022.
- 1.3 There was a Call for Views issued by the Department of Levelling Up, Housing and Communities which closed on 31 January 2024. This looked at options for increasing the flexibilities available so it seems likely as a minimum the existing flexibilities will be extended however this is not confirmed.
- 1.4 Before the Council can flexibly use capital receipts, the use and the impact on prudential indicators must be specified and agreed by Full Council. There is no impact to the prudential indicators from this update.
- 1.5 The directive enables authorities to use capital receipts to fund the revenue costs of transformation projects and release savings.
- 1.6 Eligible capital receipts must be from sale of the Council's own assets outside of its group and does not include Right to Buy receipts. A capital receipt is the income received over the value of £10,000 from the disposal of fixed assets or the repayment of loans for capital purposes. For the flexibility to apply, the receipt must be from the period the direction applies.
- 1.7 The objectives of this strategy are to:
 - Outline the methodology and criteria for Somerset Council projects that might be eligible for capital receipts funding.
 - Identify projects that are eligible, and which may be funded by this method.
 - Report on the progress of projects approved in the previous year.

2 Methodology

- 2.1 To make use of this flexibility, capital receipts must arise in the period 2016/17 to 2024/25, and qualifying expenditure must take place in the same period. For example, a capital receipt realised in 2016/17 could finance a project in 2024/25, but not in 2025/26 unless the flexibility is extended. Capital receipts realised before 2016/17 cannot be used.
- 2.2 If projects are identified in the strategy, they can still be financed in whole or in part from other sources, e.g. revenue budgets. The Council is not obliged to fund these projects from capital receipts, and new capital receipts might not necessarily be available during the period of the strategy. It is essential that eligible projects should identify alternative sources of funding to enable them to proceed, as capital receipts cannot necessarily be relied upon. In addition, the decision to use capital receipts to fund these projects needs to be taken in the context of the Council's overall capital financing requirements.
- 2.3 If appropriate, the Council will approve the budgeted funding of the projects in the strategy when approving the Capital Programme for the year and will determine the actual financing when approving the Council's Capital Programme outturn and financing for the year.

3 Eligible Efficiency Strategy Projects

- 3.1 Qualifying expenditure to have the flexibility applied must satisfy one of the following
 - Generate ongoing revenue savings in the delivery of public services.
 - Transform service delivery to reduce costs.
 - Transform service delivery in a way to reduce future years' costs or demands for services for any public sector delivery partner.
- 3.2 Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. Ongoing revenue costs cannot be funded by this method.
- 3.3 Discretionary redundancy payments are not qualifying expenditure and must not be capitalised under the direction. Redundancy payments that are necessarily incurred may be capitalised, limited to the amounts available as statutory redundancy payments. Capital receipts cannot be used to fund redundancy costs in excess of what is required by statute. This restriction does not apply to other severance costs, including pension strain costs.
- 3.4 At the time of the 2024/25 budget being approved, the following projects are proposed to be funded by the flexibility, subject to capital receipts being delivered. The values relate to both spend occurring in 2023/24 and expected in 2024/25. Table 1 below details the projects and how they qualify.

Table 1

Project	Directorate	2023/24 £m	2024/25 £m	Purpose of expenditure to be capitalised and description of the associated projects
Improvement and Transformation Programme	Cross Council	-	15.000	The approach to whole Council transformation is now encompassed within the Improvement and Transformation Programme which brings together the activity required to deliver our vision, redesign our organisation, reshape our workforce, transform our services, and deliver our savings.
Restructuring	Cross Council	-	18.000	All in year restructures and the workforce element of our transformation programme will incur some redundancy costs.
My Life My Future	Adults Services	3.583	3.500	The My Life, My Future programme at Somerset Council is an Adult Social Care transformation initiative aimed at improving the lives of Somerset residents by promoting independence and reducing long-term care needs.
Local Government Reorganisation	Cross Council	3.088	3.500	On 1 April 2023, Somerset's five councils were merged into a single unitary authority called Somerset Council to streamline services and reduce costs. This reorganisation aimed to create a more efficient and sustainable local governance structure.
Total		6.671	40.000	

3.5 The flexible use of these receipts does not impact the Council's prudential indicators. There is no impact on either the operational boundary or the authorised limit.