	Council **20 October 2020**
Title	**Flexible Use of Capital Receipts**
Report of	Director of Finance (Section 151 Officer)
Wards	All
Status	Public
Urgent	Yes
Key	Yes
Enclosures	None
Officer Contact Details	Anisa Darr – Director of Finance (Section 151 Officer) Anisa.Darr@barnet.gov.uk Cath Shaw – Deputy Chief Executive Cath.Shaw@barnet.gov.uk

Summary

Officers have undertaken work to assess if it's financially beneficial to exit the Barnet House Lease or continue to see the lease out.

Any settlement in termination of the lease would be revenue in nature. The council intends to utilise the government's "Flexible use of Capital Receipts (FCR)" facility.

The FCR provision was first laid out in the Spending Review 2015 where 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 capital receipts on the revenue costs of transformation projects. Initially this flexibility on the use of capital receipts was limited to those receipts received between 1 April 2016 and 31 March 2019, however, this has now been extended to March 2022.

Capital receipts are the income received over the value of £10,000 from the disposal of Fixed Assets or the repayment of loans for capital purposes.

Under the FCR guidance, the Secretary of State sets out that individual authorities are best placed to decide which expenditure projects are best to be funded by this method in local areas. The key criteria for expenditure to qualify is that the schemes must be 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.

Officers Recommendation

That Council approve the use of Capital Receipts to fund the Barnet House Exit Settlement.

1. WHY THIS REPORT IS NEEDED

1.1 Executive Summary

1.1.1 March 2020 Council approved the 2020/21 budget including: "Approve the adoption of Flexible Use of Capital Receipts provisions as set out in paragraphs 1.6.14 to 1.6.17". The limited use of Flexible Capital Receipts flexibilities as detailed below.

1.1.2 For schemes which are transformational by nature the council is able to make use of the government's "Flexible use of Capital Receipts" (FCR) initiative. To qualify, the schemes must be 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.

1.1.3 The council has previously made use of this flexibility in relation the Office Build (containing the transformation project 'The Way We Work (TW3)) and the Mosaic system implementation within Adults. The total value of FCR approved for use by Council was £0.600m for the Office Build project and £0.750m for the Mosaic system implementation.

1.1.4 In line with section 5.5 of the MHCLG's Statutory Guidance on the Flexible Use of Capital Receipts, the strategy should be presented to full council for approval.

1.1.5 Subject to sufficient capital receipts balances, March Council approved the use of Flexible Capital Receipts flexibilities. The report to Council (1.6.16) stated:
"The condition for accessing this funding is that the specific expenditure requirement together with expected benefits are reported to Council prior to the charging of expenditure to the relevant cost centre."

1.1.6 This report requests the approval of capital receipts to fund one off revenue expenditure to secure the more efficient delivery of public services within Barnet. Any use of capital receipts requires approval by Full Council.

1.1.7 If Council recommends approval of the use of funds this will generate a net benefit to the council of £0.973m per year until the planned end of the lease in 2032 meaning that the Section 151 officer believes that this scheme does meet the criteria for FCR usage.

1.1.8 As previously agreed by Council, this authority has previously made use of this flexibility in relation the Office Build (containing the transformation project 'The Way We Work (TW3)) and the Mosaic system implementation within Adults. The government's Guidance requires that the strategy for the use of flexible receipts should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years.

1.1.9 Several prudential indicators were presented to and approved by Full Council in March 2020. The council is now changing its strategy and the impact of using of Capital Receipts to fund the Barnet House Exit Settlement will add £5.178m to the Capital Financing Requirement forecast in 2020/21.

1.1.10 As reported to Council in March 2020:

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement						
CFR – non housing	346,825	434,011	533,021	608,370	635,268	654,600
CFR – housing	200,634	226,798	262,768	322,029	363,656	389,774
Total CFR	**547,459**	**660,809**	**795,789**	**930,399**	**998,924**	**1,044,374**
Movement in CFR	**88,293**	**113,350**	**134,980**	**134,610**	**68,525**	**45,450**

1.1.11 Impact of the proposed change:

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement						
CFR – non housing	346,825	434,011	538,199	613,548	640,446	659,778
CFR – housing	200,634	226,798	262,768	322,029	363,656	389,774
Total CFR	**547,459**	**660,809**	**800,967**	**935,577**	**1,004,102**	**1,049,552**
Movement in CFR	**88,293**	**113,350**	**140,158**	**134,610**	**68,525**	**45,450**

1.1.12 This change to the forecast will not impact either the operational boundary or the authorised limit. These indicators are fixed in March 2020 for the year ahead and there is enough headroom in both to allow for extra borrowing of £5.178m.

2. REASONS FOR RECOMMENDATIONS

2.1.1 In order that the Council can consider the use of Flexible Capital Receipts for the Barnet house Exit Settlement as agreed at Urgency Committee on 2nd October 2020.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1.1 If Flexible Capital Receipts are not used to fund the exit settlement, the costs will need to be funded from revenue resulting in a revenue pressure of approximately £10.5m which will reduce the councils forecast reserves by the same amount.

4. POST DECISION IMPLEMENTATION

4.1.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 This supports the council's corporate priorities as expressed through the Corporate Plan for 2019-24 which sets out our vision and strategy for the next 5 years. This includes the outcomes we want to achieve for the borough, the priorities we will focus resources on, and our approach for how we will deliver this.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The current capital programme assumes £12.408m Capital receipts usage in 2020/21 against forecast capital receipts of £17.730m leaving £5.322m available in 2020/21. The Barnet House Exit Settlement is estimated to be £10.5m meaning that £5.178m of capital receipts would need to be diverted away from the capital programme should no further sizeable receipts be received in year.

5.2.2 If those capital receipts were no longer available to fund some of the capital programme the additional borrowing would have a revenue cost of £0.227m per year. This is based on borrowing £5.178m over 50 years from the Public Works Loans Board (equal to capital asset lives within the capital programme) at 2.4% and MRP at 2%.

5.2.3 The payment of £10.5m lease premium, agreed in principle at Urgency Committee, is likely to be phased into 2 instalments in November 2020 and March 2021. Without Council approval, the authority cannot use capital receipts and will have to make payments from revenue which will cause a one-off pressure in-year and would reduce reserve balances by the same amount.

5.2.4 As noted in 3.1.1, financing the exit premium from reserves has been considered and is not recommended.

5.2.5 The lease premium expenditure would release the council from its lease obligation at Barnet House and save a gross £1.2m per annum, offset by borrowing costs of £0.227m.

Per Annum	**£m**
Gross Rent Saving	£1.200
Additional Borrowing Cost	(£0.227)
Net Saving to the General Fund	**£0.973**

5.3 Legal and Constitutional References

5.3.1 Section 151 of the Local Government Act 1972 states that: "without prejudice to section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 111 of the Local Government Act 1972 relates to the subsidiary powers of local authorities.

5.3.2 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 …".

5.3.3 The Statutory Guidance "Statutory Guidance on the Flexible Use of Capital Receipts (updated)" is issued under section 15(1) of the Act and authorities are therefore required to have regard to it.

5.3.4 The Statutory Guidance defines qualifying expenditure at para 4.1 as '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. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility' and goes on to give examples of qualifying expenditure including: 'Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation'.

5.3.5 As detailed in paragraphs 1.14 – 1.17 Full Council approval is required for the use of the capital receipt as referred to in the report.

5.4 Risk Management

5.4.1 Risk is defined as an uncertain event that, should it occur, will have an impact on the organisation's ability to achieve its objectives. A risk is measured by the likelihood of a perceived threat or opportunity occurring and the magnitude of its impact on the organisation's objectives.

5.5 Equalities and Diversity

5.5.1 There are no matter of equalities and diversity arising from the content of this report.

5.6 Consultation and Engagement

5.6.1 There are no consultations or engagements relevant to this report.

5.7 Insight

5.7.1 None in the context of this report.

6. BACKGROUND PAPERS

Committee	Item & Agenda	Link
Urgency Committee, 2 October 2020	Item 5 Lease Surrender	https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=716&MId=10713&Ver=4
Full Council, 3 March 2020	Item 12.2 Referral from Policy & Resources Committee – Business Planning – Medium Terms Financial Strategy 2020-25, Budget Management 2019/20 and Budget for 2020/21	https://barnet.moderngov.co.uk/documents/s58141/Council%20March%202020.pdf
N/A	MHCLG: Statutory Guidance on the Flexible Use of Capital Receipts	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/802057/Flexible_use_of_capital_receipts__updated_.pdf