



Flexible Use of Capital Receipts

1.0 Introduction

Capital receipts are the money councils receive from asset sales, the use of which is normally restricted to funding other capital expenditure or paying off debt. The receipts cannot usually be used to fund revenue costs.

Since 2016, the Flexible Use of Capital Receipts Direction has allowed local authorities to use the proceeds from asset sales to fund the revenue costs of projects that result in ongoing cost savings or improved efficiency.

In November 2024, the Local Government Finance Policy Statement announced the extension of the flexible use of capital receipts to 2030.

Before the Council can flexibly use capital receipts it must prepare, publish, and maintain a 'flexible use of capital receipts strategy'. This must consider the impact of the flexibility on the affordability of borrowing and its prudential indicators.

Full Council must approve the strategy before any qualifying expenditure is incurred.

2.0 Qualifying Expenditure

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 authorities', or several authorities, and/or to another public sector body's net service expenditure.

Qualifying expenditure means expenditure on a project where incurring up-front costs will generate ongoing savings. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

3.0 Qualifying Disposal

Capital receipts used under the direction must be from qualifying disposals. That is, disposals where the authority does not retain an interest, directly or indirectly, in the assets once the disposal has occurred. Where the authority retains some exposure to the risks and rewards of the assets following disposal, it must not use any capital receipts from that disposal.

The direction does not allow authorities to use capital receipts generated by a disposal to an entity that is within the authority's group structure (subsidiaries, associates and joint ventures).

4.0 Accountability

Each authority should disclose the individual projects that will be funded or part funded through capital receipts flexibility to full Council. This requirement can be satisfied as part of the annual budget setting process.

It is a condition of the direction that authorities must send details setting out their planned use of the flexibility to the Secretary of State, in advance of its use for each financial year and must include:

- The amount of planned capitalisation using the flexibility
- The purpose of the expenditure to be capitalised
- The amount of expenditure that was capitalised using the flexibility in the prior year
- The efficiency savings that are directly attributable to the use of the flexibility that were achieved in the prior year

If any of this information is unavailable or unknown, the council must set this out with a description as to why it cannot be provided.

Flexible Use of Capital Receipts Strategy 2026/27

1.0 Objectives and Purpose

1.1 This strategy is intended to enable the Council to make use of the Flexible Use of Capital Receipts Direction.

The objectives of this Strategy are to:

- Outline the methodology for funding projects using this flexibility
- Identify actual and potential capital receipts that could be utilised to fund transformation projects
- Identify projects that are considered to be eligible, and which could flexibly be funded from capital receipts
- In subsequent years, report on the progress of projects approved in previous years

2.0 Methodology

2.1 To make use of this flexibility, capital receipts must arise in the period 2016/17 to 2029/30, and qualifying expenditure must take place in the same period.

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. Having approved the Strategy, the Council is not obliged to fund these projects from capital receipts. It is Council policy that capital receipts are not relied upon to fund any expenditure until they are realised and as new capital receipts might not necessarily be available during the period of the Strategy, it is essential that alternative sources of funding are levered in, if necessary.

3.0 Project Details

3.1 In November 2025, the Council made a joint submission with Plymouth City Council for Local Government Reorganisation in Devon.

Across the Devon area (including Plymouth and Torbay), it is estimated that our proposal will deliver annual, ongoing efficiency savings of around £50m - £70m per annum. These figures are estimates based on detailed modelling and a range of assumptions. Savings from a number of categories are projected:

- Service consolidation savings
- Corporate service consolidation
- Optimising senior leadership
- Optimising costs of democracy
- Property rationalisation
- Service transformation savings
- Harmonisation of fees and charges

Project	2026/27 £m	2027/28 £m	2028/29 £m
Local Government Re-organisation transitional costs			
Redundancy / workforce exit	0	3.0	5.0
Programme Delivery Team	0.9	2.1	0.5
External communication and branding	0	0.3	0.3
Workforce onboarding and culture development	0	0.2	0.2
ICT set up and consolidation	0.5	5.0	3.0
New council establishment – policy & process	0.2	0.2	0.1
Shadow authority costs	0.4	0.8	0
Property rationalisation	0	0.2	0.3
Programme contingency	0	1.0	1.0
Total Estimate	2.0	13.8	10.4

3.2 It is for individual authorities to decide whether or not a project qualifies for the flexibility. Guidance sets out a wide range of projects that could generate qualifying expenditure and includes:

- Activities which support or enable efficiency savings, improved service delivery or transformation as part of local government re-organisation

On this basis, it is assessed that the project qualifies for the flexibility.

4.0 Eligible Capital Receipts and Impact on Prudential Indicators

4.1 The planned use of the flexibility shown in Section 3 for 2026/27 is set out below:

	2026/27 £m
Eligible General fund Capital Receipts b/fwd	1.5
Projected Capital Receipts	11.8
Planned Use of Flexible Use Direction	(1.5)
Eligible General Fund Capital Receipts c/fwd	11.8

4.2 It should be noted that the Council does not currently hold any other significant capital receipts in addition to those set out in the table above.

4.3 As it is Council policy not to rely on capital receipts until they are realised, the projected capital receipts above have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. Consequently, the use of these receipts under this flexibility will have no effect on the Council's prudential indicators.

4.4 The capital receipts, received to date, have also not been earmarked as funding for any other proposed capital expenditure and therefore there is no anticipated additional impact on the Council's prudential indicators as set out in the Council's Treasury Management Strategy.

4.5 The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this activity within the 2026/27 Statement of Accounts.

5.0 Approval

For 2026/27, the Council will approve the budgeted funding of the projects in the Strategy when approving the General Fund Budget and Capital Programme

January 2026