Proposals for the use of capital receipts from asset sales

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The Local Government Association (LGA) is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Executive. The Executive plays a coordinating role, providing strategic direction to the association's work through the business planning process. It is advised by the LGA Leadership Board and the boards of the central bodies.

Summary

Whilst many local authorities already manage their assets well, this proposal would provide valuable additional flexibility to authorities in managing transformational change.

We therefore support the policy in principle, on the basis that this provides some limited assistance to authorities struggling to cope with substantial cuts in government funding. We have reservations about how it would work in practice. In particular the timing of the proposals does not, in its current form, give councils scope to accurately identify assets and projects to use under the scheme. We believe the proposal would be more flexible if Government concerned itself less with the detail of what local authorities proposed, which should be a matter for local accountability.

We would not favour a bid-based approach, as there is no "one-size-fits-all" set of criteria and councils are best placed to judge the value for money of their projects.

The LGA does not support the assertion that the use of capital receipts for revenue purposes negatively impacts the deficit reduction programme. It simply releases value currently residing on councils' balance sheets without the need for further funding from taxation; the sale of assets generates economic activity, as does the transformational revenue expenditure. Furthermore, many jurisdictions do not score local authority borrowing as part of overall government borrowing, and there is no compelling reason why the UK does not follow a similar practice.

Submission

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Responses to Consultation questions

QUESTION 1: Do you consider that the proposal will provide you with a useful additional flexibility for one-off revenue costs associated with restructuring to deliver longer term savings?

A survey of our members indicates that there is a significant number of councils for which the proposal would provide a useful additional flexibility, although the degree of usefulness varies. The LGA fully supports the principle that income from capital receipts should only ever be used to fund one-off revenue expenditure and urges that caution be exercised to ensure that capital receipts in themselves are not seen as a permanent measure to support councils' budgets.

The proposal would only be of use in the sale of assets held for sale and not operational assets and therefore, for some authorities there is little scope for disposal of assets.

QUESTION 2: We would welcome (in no more than 400 words) your initial ideas for change(s) that you consider would benefit from the policy. Information could include the level of funding required, type of assets to be disposed, details of service transformation and savings that could be achieved and future use of the asset(s).

The LGA can see some potential for revenue savings. But this is not a magic bullet and will not, on its own, solve the problem of the growing funding gap. Given the limited timescale in the proposal, the scope of projects will be limited as there is not sufficient lead time to identify assets and projects.

From conversations with our members through various channels we would envisage that, typically, the type of project suited to this proposal would be one where the service is transforming from one which depends on physical assets to one that is delivered through other channels, and the sale of the asset is complementary to the transformation. For example, the proceeds from the sale of an administrative building could be used to pay for training and computer equipment, to enable the staff who worked there to work remotely, as well as any one-off downsizing costs such as the cost of repairing dilapidations to the building. The transformation to a virtual service would then enable permanent savings on the cost of administrative buildings.

Such projects often involve working jointly with other local authorities and external partners, for example moving office-based staff to a service centre shared with staff from the local healthcare trust and other partners. One advantage the policy would provide is that debates over which costs could be capitalised would become redundant, as the capital receipt could be used to cover all of the costs arising from the transformation.

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 fair distribution?

We do not support a rigid set of criteria. Councils are best placed to know their local circumstances. We do not believe that releasing the value of surplus assets in public sector balance sheets on the scale that is likely to be involved in reality presents any kind of threat to economic growth or deficit recovery. Central government should only intervene where the proposals threaten to upset the national economic situation.

Local authorities are already under a duty to ensure that they receive value for the disposal of public assets. They will therefore need to satisfy themselves that using money from asset sales to fund one-off revenue costs provides best value for local communities. This will be sufficient to ensure that assets with a long-term value are not disposed of for short-term gain.

We do not feel that there should be any upper limit on the amount of flexibility. Authorities hold approximately £1 billion in "assets held for sale" and this, in addition to right to buy housing sales is approximately the amount of assets local authorities sell each year. It is not therefore envisaged that this policy will necessarily lead to a rush of new asset sales. The upper limit locally should be determined by prudential considerations determined by Councils with the advice of chief finance officers.

We do not agree that the Government should concern itself with the nature of the assets being sold; the arguments for and against selling certain assets should, as ever, be a matter for local debate and local authority accountability. Linking the use of this flexibility to individual asset sales is likely to delay the process, be over-bureaucratic and could preclude the use of existing balances of capital receipts unapplied.

The existing Prudential Code for Capital Finance could be extended, to give some assurance that any transformational projects funded through capital receipts would deliver the appropriate Value for Money outcome. These criteria should not be onerous and there should be a light-touch approach to regulation.

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

We would favour the alternative method of amending the existing Capital Finance Regulations, as we are not in favour of a bid-based approach. We would favour a wording of the regulations that is sufficiently flexible to allow the sale of all kinds of assets to fund all kinds of one-off expenditure relating to transformational projects rather than restricting it to certain types of revenue spend, and certain types of assets. This would be limited only by the existing Prudential Code.

QUESTION 5: Is the proposed timetable realistic to allow for practical implementation of the proposal?

QUESTION 6: If not, what changes would you make to the proposed implementation of the policy?

See also the response to Question 3.

The timetable as it stands is, for many authorities, not realistic. Many authorities must make decisions about the disposal of assets while the proposal is still at consultation stage and hence they do not know the criteria of the bid system – with incomplete information it is much more difficult for authorities to make the right decision.

We would propose that the policy be changed as follows:

- *(i) Existing capital receipts be allowed to fund projects.*
- *(ii) Some commitment is given that the policy will continue beyond 2015/16.*