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**REPORT TO: MORAY COUNCIL ON 10 MARCH 2021**

**SUBJECT: USE OF CAPITAL RECEIPTS TO FUND TRANSFORMATION**

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

**1. REASON FOR REPORT**

- 1.1 To request Council's approval to use capital receipts to fund a specified range of transformation or service redesign projects, in the terms permitted by Scottish Government as set out in Local Government Finance Circular No 4/2019.
- 1.2 This report is submitted to Council in terms of Section III (A) (2) of the Council's Scheme of Administration relating to consideration of capital and revenue budgets and long-term financial plans.

**2. RECOMMENDATION**

**2.1 It is recommended that Council:**

- i) approves the use of capital receipts to fund expenditure estimated at £220,000 in 2020/21 on the Improvement and Modernisation Programme and Digital Services, as set out in section 4 of this report;**
- ii) notes that annual recurring savings of at least £2,121,000 are projected to be achieved from this and the last two years' investment of capital receipts; and**
- iii) notes that further reports on the use of capital receipts in 2021/22 will be brought for approval as the details of the Improvement and Modernisation Programme and other proposals for transformation are developed.**

**3. BACKGROUND**

- 3.1 Local authorities are required to use capital receipts to fund capital expenditure. Scottish Ministers are empowered by the Local Government Scotland Act 2003 to vary proper accounting practices by issuing statutory guidance. The Cabinet Secretary for Finance, Economy and Fair Work wrote to the COSLA Spokesperson for Resources on 10 December 2018 stating his intention to issue guidance enabling capital receipts to be used to fund service

transformation. The statutory guidance was issued on 28 March 2019 as Local Government Finance Circular No 4/2019.

- 3.2 The Guidance covers expenditure in the financial years 2018/19 to 2021/22. To be funded from capital receipts, expenditure must be on a transformation or service redesign project where incurring up-front costs will transform service delivery in a way that reduces costs and/or demand for services in future years and generate on-going savings.
- 3.3 The Guidance requires a report to be presented to Council for approval to use capital receipts to fund qualifying expenditure. The report is required to set out the total estimated cost of each project; the expected savings or service demand reduction; details of the expenditure and the amounts and value of capital receipts to be used. Without the approval of Council capital receipts cannot be used for this purpose.
- 3.4 Previous reports have been made to Council on 8 May 2019 for use of capital receipts in 2018/19 (paragraph 8 of the Minute refers) and on 12 February 2020 (paragraph 11 of the Minute refers) for use of capital receipts in 2019/20.

#### **4. USE OF CAPITAL RECEIPTS 2020/21**

- 4.1 Capital receipts of £1,674,000 have been generated in 2020/21 as at 31 January 2020. It is proposed to fund qualifying expenditure in 2020/21 from these receipts as set out below.
- 4.2 The Council, at a special meeting on 12 December 2018, approved an Improvement and Modernisation Programme (IMP) (paragraph 5 of the Minute refers). There have been regular update reports to Policy and Resources Committee and latterly to Education, Communities and Organisational Development Committee, with the last update to that committee on 18 November 2020 (paragraph 34 of the Minute refers). It is proposed that expenditure incurred on projects forming part of IMP is funded from capital receipts. Expenditure of £313,000 has been incurred to date and current estimates are that expenditure of £146,000 will be incurred in 2020/21, with total savings from IMP currently projected at £716,000 - £776,000 from those areas where savings have been currently quantified.
- 4.3 In addition to costs directly attributable to IMP, the Council has a Business Change Officer in the ICT service. The cost of this post, including on-costs, is £59,000. The Council is a member of the Digital Office for Scottish Local Government, for an annual membership fee of £15,000. These costs relate to the support for change which digital services can bring about and the postholder has been supporting work carried out in relation to the Education admin review and other work under IMP and it is proposed that these costs in 2020/21 are funded from capital receipts.
- 4.4 The overall position of proposed investment and forecast savings is summarised in the table below:

Project	Cost 2018 to 2020 £000s	Projected Cost 2020/21 £000s	Actual Savings 2018 to 2020 £000s	Projected Savings 2020/21 £000s	Projected future savings £000s	Total projected savings £000s
IMP	313	146	86	168	522	776
Digital Services	213	74	44	-	-	44
Service restructure	398	-	1,112	-	-	1,112
CAT	53	-	189	-	-	189
Total	977	220	1,431	168	522	2,121

## 5. **SUMMARY OF IMPLICATIONS**

### **(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

Use of capital receipts to fund transformation assists in achieving the Council's priority of being financially sustainable.

### **(b) Policy and Legal**

This report is made following statutory guidance issued by Scottish Ministers under section 12 (2)(b) of the Local Government in Scotland Act 2003, on proper accounting practices.

### **(c) Financial implications**

The financial implications are addressed through the report. One-off investment in transformation totalling £220,000 added to one-off investment of £977,000 in 2018/19 and 2019/20 is currently projected to generate recurring annual savings of £2,121,000.

### **(d) Risk Implications**

There are risks that projected savings are not achieved by the investment in transformation. Risks are mitigated by closely monitoring progress in achieving savings.

### **(e) Staffing Implications**

There are no staffing implications arising directly from this report.

### **(f) Property**

There are no property implications arising directly from this report.

### **(g) Equalities/Socio Economic Impact**

There are no implications for equalities or the socio-economic duty arising directly from this report.

### **(h) Consultations**

The Corporate Management Team has been consulted in the preparation of this report.

## **8. CONCLUSION**

- 8.1 The Council has generated capital receipts of £1,674,000 in 2020/21 to date and retains unused capital receipts from 2019/20 of £1,182,000. This totals £2,856,000, which sum is available to invest in transformation projects, following approval by Council. Expenditure of £220,000 in 2020/21 is recommended. Savings of £1,431,000 have been generated with £168,000 forecast for 2020/21 and a further £522,000 anticipated in 2021/22.**

Author of Report:	Lorraine Paisey, Chief Financial Officer
Background Papers:	
Ref:	LP/LJC/