REPORT TO: MORAY COUNCIL ON 8 MAY 2019

SUBJECT: USE OF CAPITAL RECEIPTS TO FUND TRANSFORMATION

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

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 of £443,418 in 2018/19 on the Improvement and Modernisation Programme, Digital Services and service restructure, as set out in section 4 of this report;

ii) notes that annual recurring savings of at least £1,016,000 are projected to be achieved from this investment of capital receipts; and

iii) notes that further reports on the use of capital receipts in 2019/20 will be brought for approval as the details of the Improvement and Modernisation Programme 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 services 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

4. USE OF CAPITAL RECEIPTS 2018/19

4.1 Capital receipts of £443,418 have been generated in 2018/19. It is proposed that these receipts will be used to fund qualifying expenditure in 2018/19 as set out below.

4.2 The Council, at a special meeting on 12 December 2018, approved an Improvement and Modernisation Programme (paragraph 5 of the Minute refers) and approved funding of £700,000 for this Programme. It is proposed that expenditure incurred on projects forming part of the Improvement and Modernisation Programme is funded from capital receipts

4.3 Expenditure in 2018/19 consisted of initial diagnostic work preparatory to the Programme at a cost of £28,293 and the secondment of the Head of Housing and Property Services to lead on the Property Asset Management strand within the Programme at a cost of £16,856 in 2018/19.

4.4 The Policy and Resources Committee on 14 April 2015 approved a Digital Services project (paragraph 9 of the Minute refers). The Transforming the Council Board on 18 April 2019 considered the End of Project report for this project, which incurred revenue costs of £139,562 in 2018/19. The final end of Project report will be made to Policy and Resources Committee in early course. It is proposed that the revenue cost of Digital Services in 2018/19 is funded from capital receipts.

4.5 The cost of statutory redundancy or early retirement where these result from a business efficiency rather than a cut in service are qualifying expenditure for the use of capital receipts under the Statutory Guidance. The Council's approved savings for 2019/20 include savings arising from review and streamlining of management arrangements for a number of services. In order to achieve these savings costs of £28,829 were incurred on statutory redundancy payments. It is proposed that the balance of £229,878 of capital receipts generated in 2018/19 after funding the expenditure detailed in paragraphs 4.1 to 4.4 above is used to fund the cost of voluntary early retirement associated with the restructure.

5. USE OF CAPITAL RECEIPTS 2019/20

5.1 The budget for 2019/20 projects capital receipts of £1.5 million and assumes that these receipts will be used to fund investment in transformation. As mentioned in paragraph 4.2, £700,000 has been provisionally allocated to the Improvement and Modernisation Programme and the balance remaining after expenditure in 2018/19 (£654,851) is anticipated to be funded from capital receipts. Details of any such expenditure will be reported to Policy and Resources Committee or to Council as plans are developed.

6. SAVINGS

6.1 The Improvement and Modernisation Programme is currently projected to achieve annual recurring savings of £700,000. The Programme is at an early stage and no savings were generated in 2018/19. The Property Asset Management theme has a target of £200,000 savings. The balance of £500,000 is based on preliminary assessment and will be refined as the Programme is developed.

6.2 The objectives of the Digital Services project were not purely financial and included improved customer access. One of the objectives was channel shift, and it is recognised that channel shift should generate service efficiencies which can be translated into financial savings. Savings of £42,000 within the mail room, access points and Revenues service were forecast for 2018/19 when the budget was set. The actual savings taken in that year are £44,330 recurring annual savings. Services which have benefited from Digital Services require to deliver financial savings and as these are achieved they will be reported. Digital Services is also an enabler of savings as it increases the Council's capacity to respond to proposed changes, such as the introduction of the charge for garden waste, which was implemented at a pace which would not have been sustainable prior to Digital Services.

6.3 The service restructure is forecast to achieve annual recurring savings of £271,907 from 1 April 2019.

6.4 The overall position of proposed investment and forecast savings is summarised in the table below:

Project	Cost 2018/19 £000s	Projected cost 2019/20 £000s	Actual saving 2018/19 £000s	Projected saving future years £000s
I&MP				
Property Asset Management	17	78		200
Other	28	577		500
Digital Services	140	-	44	
Service restructure	258	-		272
Total	443	655	44	972

7. 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 £1,098,000 is currently projected to generate recurring annual savings of £1,016,000.

(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 £443,418 in 2018/19. This sum is available to invest in transformation projects, following approval by Council. Expenditure of £443,418 in 2018/19 is recommended. Savings of £44,330 have been generated and a further £972,000 anticipated.

8.2 The Council anticipates capital receipts of £1.5 million in 2019/20. Transformation projects will be brought forward to be approved for funding from these receipts as projects are developed.

Author of Report:	Lorraine Paisey, Head of Financial Services
Background Papers:	
Ref:	LP/LJC/