



REPORT TO: MORAY COUNCIL ON 2 FEBRUARY 2023

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 £396,000 in 2022/23 on the Improvement and Modernisation Programme, Digital Services and review of Early Learning and Childcare, as set out in section 4 of this report;**
- ii) **notes that annual recurring savings of at least £4,483,000 are projected to be achieved from this and the last four years' investment of capital receipts.**

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 and extended by Local Government Finance Circular No. 8/2022, with no amendment to the substantive provisions of 4/2019.

- 3.2 The Guidance covers expenditure in the financial years 2018/19 to 2022/23. 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), on 12 February 2020 (paragraph 11 of the Minute refers) for use of capital receipts in 2019/20, on 10 March 2021 (paragraph 7 of the Minute refers) for use of capital receipts in 2020/21 and on 22 February 2022 (paragraph 7 of the Minute refers) for use of capital receipts in 2021/22.

4. USE OF CAPITAL RECEIPTS 2022/23

- 4.1 The Council had unapplied capital receipts of £3,713,000 as at 31 December 2022 – these are being held to fund transformation projects. It is proposed to fund qualifying expenditure in 2022/23 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, to Education, Communities and Organisational Development Committee, to Council and to the Corporate Committee, with the latest update on the overall programme to the Corporate Committee on 30 August 2022 (paragraph 7 of the Minute refers). It is proposed that expenditure incurred on projects forming part of IMP is funded from capital receipts. Expenditure of £674,000 has been incurred to date and current estimates are that expenditure of £223,000 will be incurred in 2022/23, on two temporary posts leading the transformation of Children’s Services, one temporary post for the office accommodation review, cost of software for service efficiencies and legal fees related to income generation. Total savings from IMP currently projected at £2,632,000 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 in 2022/23, including oncosts, is £57,000. The Council is a member of the Digital Office for Scottish Local Government, for an annual membership fee of £25,000. 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 2022/23 are funded from capital receipts.

4.4 The Council carried out a review of its Early Learning and Childcare service during 2022/23. Specific expenditure incurred was on a project officer and external consultancy support. These costs total £91,360 and preliminary estimates of savings in future years are £500,000. It is proposed that the costs are funded from capital receipts

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

Project	Cost 2018 to 2022 £000s	Projected Cost 2022/23 £000s	Actual Savings 2018 to 2022 £000s	Projected Savings 2022/23 £000s	Projected future savings £000s	Total projected savings £000s
IMP	674	223	118	800	1,714	2,632
Digital Services	362	82	44	3	150	197
ELC review	-	91	-	-	500	500
Service restructure	398	-	1,165	-	-	1,165
CAT	53	-	189	-	-	189
Total	1,487	396	1,516	803	2,364	4,683

4.6 No further savings in respect of the programme of Community Asset Transfers (CAT) of town halls is anticipated as the facilities have been transferred to community groups.

4.7 No further savings in respect of service restructures are anticipated.

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 £396,000 added to one-off investment of £1,487,000 in 2018/19 to 2021/22 is currently projected to generate recurring annual savings of £4,683,000.

(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. Review of corporate property forms part of the IMP and savings are projected to be generated from rationalisation of the Council's property portfolio.

(g) Equalities/Socio Economic Impact

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

(h) Climate Change and Biodiversity Impacts

There are no implications for climate change and biodiversity arising directly from this report.

(i) Consultations

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

6. CONCLUSION

6.1 The Council has unused capital receipts of £3,713,000 as at 31 March 2022 and this sum is available to invest in transformation projects, following approval by Council. Expenditure of £396,000 in 2022/23 is recommended. Savings of £1,516,000 have been generated with £803,000 forecast for 2022/23 and a further £2,364,000 anticipated in future years.

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Background Papers:
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