



REPORT TO: MORAY COUNCIL ON 12 FEBRUARY 2020

**SUBJECT: USE OF CAPITAL RECEIPTS AND EAR-MARKED RESERVES
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 £557,000 in 2019/20 on the Improvement and Modernisation Programme, Digital Services, Community Asset Transfer and service restructure, as set out in section 4 of this report;**
- ii) notes that annual recurring savings of at least £1,321,000 are projected to be achieved from this and last year's investment of capital receipts; and**
- iii) notes that further reports on the use of capital receipts in 2020/21 will be brought for approval as the details of the Improvement and Modernisation Programme are developed.**

- 2.2 It is also recommended that the Council approves use of £30,000 from the ear-marked reserve of £2,000,000 set aside to fund Council priorities to facilitate the development of the Council's Climate Change Strategy and Action Plan.**

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.
- 3.4 In addition to the use of capital receipts, the Council has planned to use its revenue resources to fund transformation, and has also set aside £2,000,000 in an ear-marked reserve to fund Council priorities.

4. USE OF CAPITAL RECEIPTS 2019/20

- 4.1 Capital receipts of £1,361,000 have been generated in 2019/20 as at 31 December 2019. It is proposed to fund qualifying expenditure in 2019/20 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, with the last update to that committee on 14 January 2020 (paragraph x of the Minute refers). It is proposed that expenditure incurred on projects forming part of IMP is funded from capital receipts. Expenditure of £181,396 has been incurred to date and current estimates are that expenditure of £291,000 will be incurred in 2019/20, with total savings from IMP currently projected at £672,000 - £732,000.
- 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 oncosts, is £58,000. 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 it is proposed that these costs in 2019/20 are funded from capital receipts.

- 4.4 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 posts. In order to achieve these savings one-off costs of £140,054 were incurred on statutory redundancy payments. It is proposed that this cost is funded from capital receipts. Savings from the management restructure are included in IMP savings.
- 4.5 The Council approved savings of £259,000 from Community Asset Transfer (CAT) / closure of town halls and community centres when the budget for 2018/19 was set. Savings of £56,000 were made in 2018/19 and further savings of £219,000 have been made in 2019/20, a total of £275,000. It was estimated that supporting the CAT process for these facilities would require an additional full time Community Support Officer, and the Community Support Unit estimate that time across Community Support Officers in support CAT in these areas has amounted to one full time equivalent during 2019/20. It is proposed that the cost of £51,346 is funded from capital receipts. The Council has incurred miscellaneous costs for valuation, advertising, Energy Performance Certificates for the properties of £2,189, which is proposed to be funded from capital receipts. There are significant costs associated with staff time dealing with CAT in a number of departments across the Council. If these can be quantified with certainty they will be reported back to Council with a view to funding these from capital receipts also.
- 4.6 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 2019/20 £000s	Projected future savings £000s
IMP	45	291		165	565
Digital Services	140	73	44		
Service restructure	258	140		272	
CAT		53	56	219	
Total	443	557	100	656	565

5. OTHER COUNCIL PRIORITIES

- 5.1 The Council at its meeting on 27 June 2019 agreed to form a Climate Change Working Group to consider and approve a Climate Change Strategy and Action Plan (paragraph 6 of the Minute refers).

- 5.2 The Council's Energy Officer has been working extensively on the preparation of the Action Plan. In order to enable this work to continue apace, it is proposed to employ an external contractor to carry out energy audits, thus freeing up some officer time. Ten audits are required, and the cost for carrying these out and writing the required reports is estimated at £30,000.
- 5.3 As this unbudgeted expenditure would be in support of a Council priority, it is recommended that it is funded from the ear-marked reserves for funding delivery of Council priorities.
- 5.4 If the energy audits identify opportunities to make savings, it would be proposed to fund the expenditure from capital receipts, and this proposal would be included in a future report on the use of capital receipts.

6. 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 and to assist the Council to become carbon neutral by 2030.

(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 £557,000 added to one-off investment of £443,000 in 2018/19 is currently projected to generate recurring annual savings of £1,321,000.

(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 £1,361,000 in 2019/20 to date. This sum is available to invest in transformation projects, following approval by Council. Expenditure of £557,000 in 2019/20 is recommended. Savings of £756,000 have been generated and a further £565,000 anticipated in future years.**
- 8.2 The Council is preparing a Climate Change Strategy and Action Plan. To facilitate this it is proposed to use external contractors to carry out Energy Audits.**

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