

Cabinet Secretary for Finance, Economy and Fair
Work
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Councillor Gail Macgregor
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Dear Gail,

Capital receipts flexibility

You wrote to me on 12 November seeking an extension of the financial flexibility to use capital receipts to meet severance costs arising from service redesign.

Despite continued UK Government real terms cuts to Scotland's resource budget, we have treated local government very fairly, and in the current financial year delivered a real terms boost in both revenue and capital funding.

However, I recognise the pressure on councils to make savings and to find ways to meet service demand more efficiently and effectively. Key to this are service transformation projects which seek to reduce costs or reduce demand, or both.

To support those projects I can confirm I am content to offer local government an enhanced financial flexibility to that previously offered in relation to capital receipts. The enhanced flexibility will not be limited to severance costs, but will also enable councils to use capital receipts to fund the cost of projects designed to transform service delivery to reduce costs and/or reduce demand for services in future years.

The new scheme I am proposing will:-

- Permit capital receipts received in the years in which this flexibility is offered to be used to fund qualifying expenditure;
- Define qualifying expenditure as expenditure on any project that is designed to transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years;

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- Permit set up and implementation costs of any new processes or arrangements to be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements will not be classified as qualifying expenditure.
- Continue to exclude the use of capital receipts to fund teacher severance costs.
- Require accountability and transparency in the use of capital receipts. A council will be required to present the projects that will be funded or part funded through the capital receipts to full Council and to publish their approved plans on their website. A council will also be required to report on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis

Examples of qualifying expenditure projects, will include, but are not limited to:

- Investment in service reform feasibility work, e.g. setting up pilot schemes
- Service reconfiguration, restructuring or rationalisation;
- Expanding the use of digital approaches to the delivery of services or interactions between a local authority and the public; and
- Improving systems or processes.

Recognising local authorities need to plan for service transformation and include these in their medium term financial plans I am making this financial flexibility available for four financial years, 2018-19 to 2021-22.

I hope that this enhancement of the previous flexibility as described above will increase councils' ability to deliver changes that will help them meet the financial challenges that they, like other parts of the public sector, face and to improve the services they provide to their communities. The guidance will issue in due course.



DEREK MACKAY

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