

Rùnaire a' Chaibineit airson Ionmhas
Ceit Fhoirbheis BPA
Cabinet Secretary for Finance
Kate Forbes MSP



Scottish Government
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Cllr Gail Macgregor
COSLA Resources Spokesperson

By email

8 October 2020

Dear Gail,

As we discussed on Friday, I have now received a reply from the Chief Secretary to the Treasury to my letter of 9 September on the financial flexibilities for local government.

I am pleased to report that this was a generally positive response and the Chief Secretary did not raise any issues that would impact on the Scottish Budget for three out of the four measures we proposed. However, I have written to Chief Secretary to raise my strong concerns with his proposal in response to our request to utilise £156 million of local authority capital budget directly for Covid resource costs. The intention of our proposal was to allow a more targeted use of capital underspends that currently cannot be utilised due to COVID restrictions and backlogs. The aim of the proposal was to provide additionality to Local Government in resource spending power directly, in recognition of COVID pressures on local authorities and the relative balance of pressures between resource and capital.

However the Chief Secretary's response would not allow for any additionality, instead just reprioritising future Barnett resource consequentials that would have flowed to the Scottish Government anyway. Yet these consequentials will likely be linked directly to a number of COVID related spending proposals that the Scottish Government would wish to consider passing on directly (such as Self-Isolation Payments and further business support). His proposal is therefore very different from what was requested and provides no such additionality to Local Government.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire
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I have stressed that our proposal to directly utilise capital budget, without impacting resource, would result in no detriment to the overall UK Government funding position. It would provide essential support to local authorities that have been at the frontline in responding to COVID. I have therefore asked that this specific request is reconsidered for the benefit of local authorities. Until that matter is resolved to our satisfaction you will appreciate that given the stance the Chief Secretary has taken we cannot implement the proposed capital to revenue budget transfer.

We can, however, now proceed with arrangements to implement the other three remaining measures which taken together will still confer a substantial additional package of spending power which could be worth up to £600 million. This will help address unmet funding pressures for Scottish councils both in the short term for the immediate mobilisation effort and as we move into the recovery phase. Further details will be brought forward in the form of Statutory Guidance, and a change in Statutory Regulations, but local authorities can now plan on the basis that the following substantial package of measures will be available:

Capital Receipts Received - Dispensation for both 2020-21 and 2021-22 through Statutory Guidance to allow Councils to place capital receipts in the Capital Grants and Receipts Unapplied Account and then used to finance Covid expenditure (revenue).

Credit arrangements - At present Councils are required by statutory guidance to charge the debt element of service concession arrangements to their accounts over the contract period. A change to the accounting treatment will allow the debt to be repaid over the life of the asset rather than the contract period, applying proper accounting practices. Councils will have the flexibility to apply this change in either 2020-21 or 2021-22. This approach will apply to all credit arrangements going forward.

Loans Fund Principal Repayment Holiday - The flexibility being offered is a loans fund repayment holiday which will permit a council to defer loans fund repayments due to be repaid in either 2020-21 or 2021-22 (but not both).

Whilst agreeing these flexibilities, the Chief Secretary asked me to reconsider making the flexibilities available in relation to capital receipts and the loans fund holiday. These flexibilities have not been made available to English authorities.

In the absence of further additional funding I am satisfied that these further financial flexibility measures are necessary.

Having said that I wish to be clear that this should not be seen as an opportunity to maintain or grow reserves. Local authorities are expected to take into consideration the contribution their reserves can make to meet their funding pressures. In terms of the financial flexibilities my expectation is that local authorities will first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

I have been clear that in order to respond effectively to the COVID-19 pandemic national and local governments must have the necessary fiscal levers. Working together in partnership we have delivered a game changing package of financial flexibilities, enabling each local authority to make informed decisions about spending at a local level.

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I can also confirm that that I am happy to agree the list of proposed principles COSLA officials have shared for the Lost Income scheme to help compensate councils for the loss of income they are experiencing caused by COVID. My officials will share some detailed comments but I am broadly content with the COSLA proposals. The COSLA principles will form the basis for the operation of the scheme and we will look to COSLA to gather the data, undertake the necessary validation checks, including Section 95 Officer sign-off, and confirm the indicative allocations to the Scottish Government. I would urge you to prioritise this work and secure Leaders agreement so that the indicative allocations can be confirmed as soon as possible. As you know we still await confirmation of the consequential from the UK Government so the allocations can only be indicative at this stage with final allocations to be paid as a redetermination to the local government finance settlement at the financial year end.

Additional funding for the scheme estimated at £90 million will ensure that councils can manage the immediate loss of income they are facing and also includes support for ALEOs. Together with the recently announced extra £49 million, which can be used to top up support for ALEOs, this will mean an overall package worth up to almost £750 million of extra funding and financial flexibilities.

These are excellent and critically important examples of how the Scottish Government is working in partnership with COSLA and local authorities to ensure that we are doing everything within our power to save jobs, protect our public services and reboot our economy.

I am happy for you to share this letter more widely with Council Leaders and I will be sharing it with the Parliament's Finance Committee and Local Government and Communities Committee.



KATE FORBES

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