

Rùnaire a' Chaibineit airson Ionmhas agus na h-  
Eaconamaidh  
Cabinet Secretary for Finance and Economy  
Kate Forbes MSP



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Mrs Kirsty Stanners  
CIPFA

Sent via email  
[Kirsty.Stanners@cipfa.org](mailto:Kirsty.Stanners@cipfa.org)

Our ref: Service Concession Flexibility  
01 February 2022

Dear Kirsty,

I write to provide an overview of a current area of debate between COSLA Directors of Finance and Scottish Government that I believe would benefit from consideration by CIPFA LASAAC.

In August 2020, in response to cost pressures faced by local authorities as a result of the pandemic, Scottish Government and COSLA officials jointly developed and agreed a package of financial flexibilities, one of which related to 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. On the request of COSLA officials I agreed to allow a statutory intervention to existing accounting treatment to allow the debt to be repaid over the life of the asset rather than the contract period, applying proper accounting practices. Councils were advised that they would have the flexibility to apply this change in either 2020-21 or 2021-22 and that this approach would apply to all credit arrangements going forward.

COSLA Directors of Finance, on behalf of their Leaders, have since pressed for the longer term and permanent use of annuity for service concessions, reflecting that this is permitted in England and Wales. On the basis that the English scheme has been subject to a full policy consideration by the UK Government, and is based on prudent principles, I agreed that Scottish local authorities are now permitted to change the method for service concessions.

General funding pressures should not inform policy decisions but as a further concession I also allowed some limited retrospective application. This applies only to that part of the

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balance sheet liability not being funded by government grant (either through the LG Settlement or specific grant) and only to the amount required to meet the costs attributable to the two year period from 2020-21 and 2021-22.

I agreed to match the position in England and Wales alongside a further flexibility with regards to retrospection to reflect the financial impact of COVID-19 during 2020-21 and 2021-22. However COSLA Directors of Finance believe there is further scope to alter the accounting treatment for service concessions and have requested a further statutory intervention in order to retrospectively apply the annuity approach to re-profile debt repayments in line with the useful life of the asset.

The English scheme sets out that where government grant supports borrowing, the period of the annual payments is commensurate with the period of the grant. Scottish local authorities are seeking to ignore government grants when considering the method, meaning that debt repayments are no longer matched with government grants as is currently the case.

In summary, Directors of Finance are asking to retrospectively apply the annuity method, over the life of the asset to the principle repayments of debt, ignoring grant funding. Scottish Officials do not believe that this request complies with the requirements of the Code. As a result, statutory intervention would be required to enable this approach.

Statutory mitigations are typically put in place to mitigate the financial implications to local authorities of changes to accounting standards. Any statutory intervention should seek to neutralise the impact on local authority finances, and place the local authority in the same financial position as it would have been prior to the revised accounting requirements. This protects historic decisions made based on existing accounting arrangements, but may not extend to future decisions if the revised accounting is considered appropriate and prudent. Statutory mitigation is not intended to be used to generate revenue (General Fund) reserves for local authorities.

I do not consider that there is justification for statutory intervention, nor has a compelling argument been made as to why the prudent principles applicable to the rest of the UK are considered not to be equally prudent for Scotland. However, I do acknowledge that the Code of Practice is ambiguous on the issue of retrospection and whilst the option to introduce a statutory mitigation remains, it also remains my view that matters of principle such as this should be addressed in the Code of Practice rather than being subject to political interpretation.

As such, I write to request that CIPFA LASAAC give consideration as to whether retrospectively applying the annuity approach to re-profile debt repayments, ignoring grant funding, in line with the useful life of the asset is compatible with accounting standards, as interpreted by the CIPFA Code of Practice on Local Authority Accounting. If this is not the case then I would request that CIPFA LASAAC consider whether an amendment to the Code or adaptation of International Financial Reporting Standards is required on this point.

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Scottish Government and COSLA Directors of Finance are currently undertaking a capital accounting review to develop a capital accounting framework that aligns more fully to accounting standards. The professional advice of CIPFA LASAAC on this review would be most welcome. I would be grateful if you could engage directly with the Head of Local Authority Accounting, Elanor Davies, whom I believe you have contact with, to progress my requests.

Yours sincerely,



**KATE FORBES**

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