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Arianne Burgess  
Convenor of the Local Government, Housing &  
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18 March 2024

Dear Convenor

When I attended the Local Government, Housing & Planning Committee on 5 March 2024 to consider the Local Authority (Capital Finance and Accounting) (Scotland) Amendment Regulations 2024, I and my officials gave a commitment to provide further information with regards to the number of local authorities in Scotland who have utilised the flexibility of existing statutory arrangements to retrospectively restate and subsequently defer historic loans fund repayments and the increase in local authority reserves attributable to this.

My officials have now collated the information requested from published local authority financial reports, which is attached as Annex A to this letter. Due to the disparity between the style, content and publication of reports produced by individual local authorities a comprehensive analysis is difficult. As such, further analysis from data included within the annual Local Financial Returns has been included within Annex A (Table A1) to reflect the increase or decrease in both loans fund advances and repayments since 2017-18. Based on published local authority reports, 15 of 32 local authorities have reprofiled their loans fund repayments. In most cases, this has included the retrospective restatement of historic loans fund repayments in order to generate 'savings' with which to increase reserves.

Where the resulting increase in reserves is available in published local authority reports, this data is also included within table A1 of Annex A. To provide further information to support that which is available from published local authority financial reports, additional data has been provided within this table to illustrate, for each local authority, the increase or decrease in loans fund advances between 2018-19 and 2022-23 and the increase or decrease in loans fund repayments between the same periods.

Additional supporting information is provided in Annex B, which sets out the all-Scotland net increase in local authority reserves between 2018-19 and 2022-23. As you will see, the increase in reserves during this period is primarily as a consequence of permitted statutory adjustments, which are explained within the annex.

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I hope this information is helpful to the committee.

Yours sincerely

**TOM ARTHUR**

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TABLE A1: REPROFILING OF LOANS FUND REPAYMENTS

The following table summarises, in columns 2 and 3, information taken from published local authority financial reports on the use of current statutory arrangements to reprofile loans fund repayments in order to generate savings and/or spread repayments over a longer-term. Columns 3 to 10 of the table summarise data captured in the annual Local Financial Returns to the Scottish Government between 2017-18 and 2022-23 to reflect both the year-on-year and average increase or decrease in loans fund advances and repayments between 2018-19 and 2022-23 as follows:

Column 3: increase or decrease in loans fund advances (capital financing requirement) between 2018-19 and 2022-23.

Column 4: increase or decrease in loans fund repayments for the same periods.

Column 5: percentage increase or decrease in loans fund repayments for the same period.

Column 6: average annual increase or decrease in loans fund advances since 2017-18.

Column 7: average annual percentage increase or decrease in loans fund advances since 2017-18.

Column 8: average annual increase or decrease in loans fund repayments since 2017-18.

Column 9: average annual percentage increase or decrease in loans fund repayments.

Column 10: includes a note where the figures provided for 2022-23 have not yet been audited as part of the annual accounts audit, due to delays in the audit completion.

column no.:	1	2	3	4	5	6	7	8	9	10
	Local Authority Published Financial Reports		Local Financial Returns: Loans Fund Advance and Repayment Increase/(Decrease): 2018-19 To 2022-23 (Comparison with 2017-18)			Local Financial Returns: <u>Average</u> Loans Fund Advance and Repayment Increase/(Decrease): 19 To 2022-23 2018-19 to 2022-23 (Comparison with 2017-18)				2018-
Local Authority	Loans Fund Repayments Reprofiling	Further information available	Increase/ decrease in loans fund advances	Increase/ decrease in loans fund repayments	% Increase/ decrease in loans fund repayments	<u>Average</u> annual increase/decrease in loans fund advances	<u>Average</u> annual % increase/decrease in loans fund advances	<u>Average</u> annual increase/decrease in loans fund repayments	<u>Average</u> annual % increase/decrease in loans fund repayments	Notes
			£000	£000	%	£000	%	£000	%	
Aberdeen City	2018-19	Move to standard 40-year repayment term, no retrospective restatement of prior year costs	409,638	-13,527	-100.0%	81,928	11.9%	-7,737	-57.2%	
Aberdeenshire	2023-24	£3m annual saving	207,883	-1,833	-13.3%	41,577	7.9%	107	0.8%	
Angus	2022-23	£2m annual saving	-22,081	1,289	22.5%	-4,416	-3.5%	626	10.9%	
Argyll & Bute	2021-22	£20.561m saving generated in 2021-22	3,410	9,602	89.6%	682	0.4%	-1,016	-9.5%	Unaudited accounts figures; may change
City of Edinburgh	2020-21	£189m saving spread over 10 years	361,534	-9,688	-16.8%	72,307	7.8%	919	1.6%	
Clackmannanshire	2020-21	Move to standard repayment term, no retrospective restatement of prior year costs	10,955	-5,502	-98.9%	2,191	2.8%	-2,434	-43.7%	Unaudited accounts figures; may change
Dumfries & Galloway			-22,294	-1,339	-8.9%	-4,459	-1.5%	283	1.9%	
Dundee City	2019-20	£35.9m saving taken over 25 years	59,348	-11,050	-74.0%	11,870	3.2%	-8,836	-59.2%	
East Ayrshire			133,250	-162	-1.8%	26,650	10.8%	-855	-9.5%	
East Dunbartonshire	2018-19	2018-19 £6.5m saving and 2023-24 additional £6.1m saving taken in 2023-24	64,586	-8,468	-100.0%	12,917	7.0%	-5,298	-62.6%	Unaudited accounts figures; may change
East Lothian			82,460	-11,077	-94.9%	16,492	7.7%	-5,387	-46.2%	Unaudited accounts figures; may change
East Renfrewshire			29,483	-3,140	-46.7%	5,897	8.2%	-1,066	-15.9%	
Falkirk	2022-23	£35m saving taken over 5 years	7,226	-5,724	-65.4%	1,445	1.0%	-1,228	-14.0%	
Fife	2019-20	No further information	-14,994	-6,274	-22.3%	-2,999	-0.4%	-1,974	-7.0%	
Glasgow City			120,446	-33,969	-58.6%	24,089	1.5%	-28,904	-49.8%	Unaudited accounts figures; may change
Highland			113,838	-22,583	-79.9%	22,768	3.3%	962	3.4%	
Inverclyde	2024-25	One-off saving of £3.75m to be taken in 2024-25 and subsequent recurring £410k saving	-16,446	-3,198	-28.1%	-3,289	-1.3%	-1,211	-10.6%	
Midlothian	2022-23	£3.032m saving in 2022-23	12,105	-1,817	-46.8%	2,421	2.1%	-1,193	-30.7%	
Moray	2023-24	No further information	48,138	-5,189	-68.4%	9,628	5.6%	-311	-4.1%	
Na h-Eileanan Siar			13,638	-863	-12.5%	2,728	2.2%	-825	-11.9%	Unaudited accounts figures; may change
North Ayrshire			20,629	-4,581	-51.3%	4,126	2.4%	-3,018	-33.8%	
North Lanarkshire	2021-22	No further information	115,248	-22,136	-100.0%	23,050	4.6%	-10,062	-45.5%	
Orkney Islands			16,845	201	17.3%	3,369	16.7%	1,147	99.0%	
Perth & Kinross	2020-21	No further information	116,446	-5,998	-50.7%	23,289	7.6%	-5,274	-44.6%	
Renfrewshire			78,857	-2,410	-94.7%	15,771	10.2%	2,655	104.4%	
Scottish Borders			29,216	-670	-8.1%	5,843	2.5%	638	7.7%	
Shetland Islands			11,786	1,122	247.1%	2,357	8.5%	1,045	230.2%	
South Ayrshire			134,315	-155	-2.6%	26,863	17.6%	-447	-7.4%	
South Lanarkshire			30,502	-17,286	-86.0%	6,100	0.8%	-9,752	-48.5%	
Stirling			2,520	-4,780	-78.1%	504	0.4%	210	3.4%	Unaudited accounts figures; may change
West Dunbartonshire			122,721	-2,587	-49.8%	24,544	10.8%	-3,258	-62.7%	Unaudited accounts figures; may change
West Lothian			17,086	-19	-0.2%	3,417	0.8%	-1,690	-20.2%	
Scotland			2,298,294	-193,811	-45.4%	459,659	4.2%	-93,185	-21.8%	

Note: where the loans fund repayments (final column) have reduced by 100% this is likely to be either: a) that the local authority have utilised the permitted 'loans fund repayment holiday', which was granted as a temporary measure for utilisation between 2020-21 and 2022-23, in response to the pandemic or b) reprofiling their loans fund repayments in such a way as to reduce the repayment in 2022-23 to nil.

## LOCAL AUTHORITY GENERAL FUND RESERVES MOVEMENTS 2018-19 TO 2022-23

## General Fund Reserves

Local authorities are required by statute to maintain a General Fund. The General Fund is the fund into which all income is paid (excluding Housing Revenue Account (HRA) income) and all expenditure is paid out (excluding HRA expenditure).

The surplus or deficit at the end of the financial year will either increase (in the case of a surplus) or decrease (in the case of a deficit), the balance of the General Fund reserves which are carried forward for future use.

## Interaction of Statutory Arrangements for Capital Financing with International Financial Reporting Standards (IFRS) – Statutory Adjustments

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require a local authority to recognise an annual 'loans fund repayment' cost in the General Fund to ensure sufficient revenue is set aside to meet the costs of capital expenditure financed by borrowing over a term commensurate with the period and pattern of benefits to the community.

IFRS requires an annual depreciation charge to allocate the costs of capital expenditure to acquire an asset over the periods that the asset will be used.

To comply with IFRS, a local authority will initially charge depreciation against the General Fund in the annual accounts. Statutory rules then require the depreciation to be transferred to a statutory reserve and replaced, as a transfer from the same statutory reserve to the General Fund, with the annual 'loans fund repayment'.

The difference between the depreciation and the loans fund repayment will be held in the statutory reserve and charged to the General Fund over time as the loans fund repayments continue to be made. Table 1 below illustrates the financial implications for the General Fund reserves of these statutory adjustments.

## General Fund Movement Analysis

Local authorities are required to produce a 'Movement in Reserves Statement' as part of their annual accounts and this data is captured in the annual Local Financial Returns to Scottish Government.

The Movement in Reserves Statement analyses the increase or decrease in reserves since the last financial reporting period. Table 1, below, illustrates the extent to which the statutory adjustments are being applied to increase reserves.

The following table, which summarises the 'Movement in Reserves' analysis produced within local authority annual accounts, illustrates that the increase in General Fund reserves held by local authorities between 2018-19 and 2022-23 is largely attributable to the statutory adjustments which require the charge against the General Fund for depreciation to be replaced with loans fund repayments.

TABLE C1: GENERAL FUND MOVEMENT ANALYSIS

	2018-19	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000	£000	£000	£000
<b>Opening reserves (adjusted)</b>	<b>1,225,083</b>	<b>1,194,514</b>	<b>1,271,453</b>	<b>1,321,561</b>	<b>1,391,005</b>	<b>2,486,561</b>	<b>2,825,979</b>
Surplus (+) / Deficit (-) on the Provision of Services <i>(The net of all income and expenditure for the year)</i> <i>(This will increase (if a surplus) or decrease (if a deficit) carried forward General Fund reserves)</i>	-579,901	-936,167	-1,749,712	-768,325	280,260	-1,694,605	-1,694,536
<b>Net reserves before statutory adjustments</b>	<b>645,182</b>	<b>258,347</b>	<b>-478,259</b>	<b>553,236</b>	<b>1,671,265</b>	<b>791,956</b>	<b>1,131,443</b>
<b>Statutory Adjustments for depreciation and loans</b>							
Increase in General Fund reserves attributable to the	1,514,864	1,625,786	1,609,081	1,568,757	1,160,642	1,476,656	1,271,230
Decrease in General Fund reserves attributable to the	-535,378	-523,833	-523,379	-492,576	-461,720	-408,525	76,356
<b>Net Increase/(decrease) in General Fund reserves</b>	<b>979,486</b>	<b>1,101,953</b>	<b>1,085,702</b>	<b>1,076,181</b>	<b>698,922</b>	<b>1,068,131</b>	<b>1,347,586</b>
Other permitted adjustments	-446,967	-207,001	646,164	-252,714	58,236	959,966	487,860
<b>Overall Increase (+) / Decrease (-) in General Fund reserves</b>	<b>-47,382</b>	<b>-41,215</b>	<b>-17,846</b>	<b>55,142</b>	<b>1,037,418</b>	<b>333,492</b>	<b>140,910</b>
<b>Closing reserves</b>	<b>1,177,701</b>	<b>1,153,299</b>	<b>1,253,607</b>	<b>1,376,703</b>	<b>2,428,423</b>	<b>2,820,053</b>	<b>2,966,889</b>

Source: Local Financial Returns 2018-19 to 2022-23