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Date 20 December 2021

Members Services

Ms Kate Forbes MSP
Cabinet Secretary for Finance and Digital Economy
(Sent by e mail to: scottish.ministers@gov.scot)

Dear Cabinet Secretary

EAST LOTHIAN COUNCIL – FINANCE SETTLEMENT 2022-23

I note your letter to Councillor Evison, COSLA President, on 9 December 2021, which set out the terms of the Local Government Finance settlement for 2022-23. Whilst we still await the specific details setting out the implications for East Lothian, I wanted to express my significant disappointment at what appears to be nothing short of an attack on essential local services, and one which I cannot see any way in which we can continue to protect vital local community lifelines.

To set out the funding envelope for Local Government in such a positive way, which promotes an increase in funding falls nothing short of an insult to both Local Councils and our communities, where in reality all of the new funding is to support the delivery of new Scottish Government policy commitments. Councils as you know are facing a multitude of significant financial pressures, which are having a very real impact on the services we provide. To assume that the scale of these pressures collectively can simply be absorbed within a static financial envelope without having a correlating impact on the services we provide is simply not true.

The draft budget makes reference to a public sector pay policy for 2022-23. During the past 19 months, Council staff have gone above and beyond, to support communities, businesses and those most in need to deliver vital services, and national interventions. Council staff have done this, with a core sense of willingness and to support the public duty and response. Once again however, Local Government appears to be the only part of the public sector where no recognition has been provided to support an uplift for pay. To simply assume we can provide a fair and appropriate uplift in pay, within an at best static funding envelope is simply insulting and incredulous.

Despite assurances from UK Government that it intends to compensate departments and other public sector employers for the increased cost of social care levy, and additional Barnett consequential would be passed to devolved administrations, I am astounded that there has been no correlated additional support provided within the national settlement. Again the assumption that these collective and significant additional costs can simply be absorbed within existing budgets without a corresponding impact on service delivery is nothing short of misleading to the public.

Your letter provides clarity that Local Council's have full autonomy and flexibility to increase Council Tax with no restrictions. Whilst this position is welcomed, given the lack of national funding through the settlement the reality is that you are placing Councils in what is an impossible situation. Communities are being faced with significant and increasing costs of living, and to raise Council Tax to fully compensate and protect current service delivery would result in an increase which would simply be unpalatable. The Scottish Government did have a choice to raise taxation collectively to protect vital public services, but rather than utilising that option you have simply passed on an impossible choice to local councils. That is not what I would expect from a responsible Government.

Your letter sets out your commitment to reduce and review ring-fencing within the settlement, and again whilst this is welcomed, the reality of this can only be true if you provide full flexibility to Local Government. This year we have seen the number of ring-fenced funds reduce, but each funding stream is still to deliver specific policy objectives, there remains an enhanced level of reporting on wider funding streams, which means in reality there is little or no flexibility for local councils to meet local needs, priorities and outcomes.

The commitment to extend the timelines relating to national fiscal flexibilities again is helpful, but as you know the ability to implement and realise any benefit from these flexibilities will differ across local councils, and in some instances may not provide any benefit. In East Lothian, we have already committed to implement the Loans Fund repayment holiday during 2021-22. I have separately written to you about the impact of growth and associated funding, with any capital receipt generated already earmarked to support the growing infrastructure obligations. I am pleased that discussions are continuing to seek a resolution on review of capital accounting and service concessions, but the importance of extending this flexibility on service concessions in line with Directors of Finance 'asks' remains critical. This will allow prudence and compliance with accounting principles, but will also allow Councils some welcomed flexibility to support vital economic recovery and stimulus.

Finally I did want to provide some clarity on the assumption that Councils have accumulated additional reserves, and that these are readily available to support service delivery. East Lothian Council did increase its overall reserves at the end of March 2021 by over £13 million, most of which was due to late COVID funding provided during 2020-21. This increase in reserves has been largely earmarked to support on-going COVID recovery with specific commitments aligned to the Council's economic recovery plan aligned to national priorities, and to support and mitigate many of the continuing pressures arising from COVID and wider economic market conditions. This remains particularly important, particularly given limited additional new national funding to support on-going interventions and recovery. In reality, the Council has a very small level of true uncommitted reserves, and given the scale of the financial pressures facing the Council this remains a very live risk, and one which has been highlighted by the Council's external auditors. The Council will of course continue to review any potential flexibilities in the use of reserves to balance future commitments, but reserves as you know is not a recurring solution to addressing a funding deficit, and without any longer term commitment that funding will either increase or pressures will ease, the application of reserves can place no comfort for our local communities that vital local services can be protected going forward.

The scale of the financial challenges and potential impact on our society and wider communities cannot be underestimated. Investment in Local Government can provide wholesale benefit to improve the lives of our communities. I appreciate difficult choices are being made in balancing public finances as a whole, but the Scottish Government does have a range of taxation levers available. The public expect politicians to be clear in what they are setting out, and by describing this funding settlement as 'an overall increase in funding' is simply insulting and disingenuous. Be honest with Councils, the public and our local

communities that the level of funding being provided simply cannot sustain what we are being asked to do.

I do hope that during the Parliamentary process to consider the draft Scottish Budget that you will find opportunities to provide additional new investment into the delivery of vital local services.

Yours sincerely

A handwritten signature in black ink that reads "Norman Hampshire". The signature is written in a cursive style with a large initial "N".

Norman Hampshire
Leader
East Lothian Council