



T: 0131 244 1896  
E: [hazel.black@gov.scot](mailto:hazel.black@gov.scot)

**Local Government Finance Circular No 3/2018**  
(Replaces Local Government Finance Circular 6/2011)

By email

To: Directors of Finance of Scottish local authorities  
Audit Scotland

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Our ref: A16145552  
15 February 2018

Dear Director of Finance,

**ACCOUNTING FOR CAPITAL GRANTS, CONTRIBUTIONS AND DONATED ASSETS**

Local Government Finance Circular 6/2011 was issued to set out statutory accounting guidance for grants, contributions and donated assets.

This new Circular does not change the statutory adjustment requirement. It provides clearer guidance on how capital grants, contributions and donated assets shall be reported in the statutory Annual Accounts.

This circular is also available through the Local Government section of the Scottish Government website at:

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/LAacc/LAaccguid>

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

**Hazel Black**  
Head of Local Authority Accounting  
Local Government and Analytical Services Division

# ACCOUNTING FOR GRANTS, CONTRIBUTIONS AND DONATED ASSETS

*Scottish Government*

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### Part 1 – Background

### Part 2 – Guidance on proper accounting practices – grants, contributions and donated assets

*Part 1 of this document gives informal advice only and is not part of the guidance itself, which is contained in Part 2.*

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## PART 1 – BACKGROUND AND COMMENTARY

### Background

1. The Code of Practice on Local Authority Accounting in the UK (the Accounting Code) requires authorities to account for, and provide disclosures in relation to, grants and contributions in accordance with IAS 20 *Accounting for Grants and Disclosure of Government Assistance*, except where interpretations or adaptations to fit the public sector are detailed in the Accounting Code.

2. The Accounting Code sets out that grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that the authority will comply with the conditions attached to them, and that the grant or contribution will be received. Where these criteria are satisfied the grant, contribution or donated asset shall be recognised. Where a condition remains to be satisfied the grant or contribution is recognised initially in the Grants Receipts in Advance Account, with the donated asset being credited to the Donated Assets Account.

3. This guidance applies to capital grants and contributions and donated assets where the recognition criteria have been met and no conditions remain outstanding. In these circumstances the Accounting Code requires grants and contributions to be recognised as income in the Comprehensive Income and Expenditure Statement (CIES). For donated assets acquired for less than fair value the Accounting Code requires the difference between fair value of the asset and the consideration paid to be recognised in the CIES as income.

### Where in the CIES?

*Capital grants and contributions – used to fund capital expenditure of the local authority*

4. Any capital grant or contribution recognised in the CIES which has been used to fund capital expenditure of the local authority is to be credited to the Taxation and non-specific grant income line of the CIES.

*Capital grants and contributions – used to fund third party capital projects*

5. Any grant or contribution recognised in the CIES which has been used to fund third party capital projects in the year of receipt is to be treated as service revenue income in the CIES. The statutory guidance refers to this as revenue grant. The conditions attached to a capital grant must permit the grant to be used to provide grants to third parties for capital projects (either through direct spend or the provision of grant). An example of this is the General Capital Grant from the Scottish Government. The value of the grant treated as service revenue income may not exceed the value of the expenditure which the grant or contribution is funding.

*Capital grants and contributions which have not been used*

6. Any capital grant or contribution recognised in the CIES but which the expenditure to be funded from that grant or contribution has not been incurred at the Balance Sheet date is to be credited to the Taxation and non-specific grant income line of the CIES. A capital grant may only be treated as a revenue grant at the point the expenditure/grant payment to third parties is incurred. Until that point it is a capital grant.

*Donated assets*

7. A donated asset recognised as income is to be credited to the Taxation and non-specific grant income line of the CIES.

**Statutory adjustments**

*Capital grants and contributions – to fund capital expenditure of the local authority*

8. Where the grant or contribution (or part thereof) has been recognised as a capital grant or contribution in the Taxation and non-specific grant income line of the CIES, and the capital expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date the grant or contribution is transferred from the General Fund / HRA (DR) to the Capital Adjustment Account (CR). This transfer is a statutory adjustment and is to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

9. Where the grant or contribution (or part thereof) has been recognised as a capital grant or contribution in the Taxation and non-specific grant income line of the CIES, but the expenditure to be financed from that grant has not yet been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund / HRA (DR) to the Capital Grants Unapplied Account (CR). This is a statutory adjustment and is to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

10. The statutory adjustment for capital grants and contributions recognised in any financial year is equal to the value of the capital grants and contributions recognised in the Taxation and non-specific grant income line of the CIES. The

transfer of grant from the Capital Grants Unapplied Account to the General Fund is a separate statutory adjustment.

*Capital grants and contributions – to fund third party capital projects*

11. There is no legislative requirement in Scotland to capitalise the grant made to a third party when that grant is funded by a capital grant or contribution made to the local authority. The treatment in Scotland is to treat both the grant expenditure to the third party and grant income to the local authority as service revenue expenditure and service revenue income. No statutory adjustment is required.

*Donated assets*

12. A statutory adjustment is required where a donated asset has been recognised as income in the CIES. A statutory adjustment is to be made which debits the General Fund / HRA and credits the Capital Adjustment Account. This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

13. The statutory adjustment to be made is equal to the amount of donation disclosed in the Taxation and non-specific grant income line of the CIES.

**Capital Grants Unapplied Account – statutory adjustments**

14. Where a capital grant or contribution has been recognised in the CIES but not yet been used the grant or contribution is held in the Capital Grants Unapplied Account. When, at a future date the grant is used the treatment of the grant will depend on the expenditure to be funded from the grant.

*Capital grants and contributions – to fund capital expenditure of the local authority*

15. Where the grant or contribution funds the capital expenditure of the local authority the grant or contribution (or part thereof) shall be transferred from the Capital Grants Unapplied Account (DR) to the Capital Adjustment Account (CR). This is a statutory adjustment and is to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

*Capital grants and contributions – to fund third party capital projects*

16. Capital grant only becomes revenue grant at the point the expenditure/grant payment to third parties is incurred. Until that point it is capital grant and hence its inclusion in the Capital Grants Unapplied Account if unspent at the year end.

17. Where the grant or contribution is subsequently used to fund third party capital projects it should be treated as a revenue grant at that point and be transferred from the Capital Grants Unapplied Account (DR) to the General Fund (CR). This is a statutory adjustment and is to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

18. In specifying this treatment we recognise that this will mean that the revenue grant will not be matched to the revenue expenditure to which it relates. This outcome cannot be avoided as the capital grant has already been recognised in a prior financial year and is held as a usable capital reserve.

19. We also recognise that we could have specified this to be a movement in usable reserves and not as a statutory adjustment. We have chosen to specify its treatment as a statutory adjustment to mirror the original transfer of the grant as a statutory adjustment.

## **Annual Accounts – statutory reporting requirements**

### ***Statutory Adjustments***

20. The statutory guidance requires a statutory adjustment for:

- (a) capital grants and/or contributions recognised in any financial year as a capital grant as reported in the Taxation and non-specific grant income line of the CIES;
- (b) any transfer of grant from the Capital grants unapplied account to the General Fund where the grant is used to fund a third party capital projects;
- (c) any transfer of grant from the Capital grants unapplied account to the Capital adjustment account where the grant is used to fund capital expenditure of the authority;
- (d) Donated asset income recognised in any financial year as reported in the Taxation and non-specific grant income line of the CIES.

21. All statutory adjustments are to be reported in the Adjustment between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The Accounting Code requires an analysis of statutory adjustments either in the Movement in Reserves Statement itself or in a note. The analysis of the statutory adjustments shall clearly identify each of the statutory adjustments made for items (a) to (d) above.

22. The analysis of statutory adjustments should not include a statutory adjustment where the amount of the adjustment made for any of the items is zero in the two financial years covered by the Movement in Reserves Statement.

### **Circular 4/2010**

23. Local Government Finance Circular 4/2010 *Accounting for PFI and Similar Arrangements* included guidance on donated assets and reflected the amortisation approach which has now changed. This Circular continues to amend Circular 4/2010 to reflect the new requirements. This guidance also continues to clarify the statutory accounting requirements relating to the statutory charge for lifecycle replacements – capital expenditure.

Scottish Government  
Local Government and Analytical Services Division  
15 February 2018

## [PART 2]

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### ACCOUNTING FOR GRANTS, CONTRIBUTIONS AND DONATED ASSETS

Issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003

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#### DEFINITIONS

1. **Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c.39). It includes a regional transport partnership and other bodies as set out in section 106 of the Local Government (Scotland) Act 1973.
2. **General Fund** means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973. The Housing Revenue Account is a statutory account forming part of the General Fund.
3. **Financial year** is a year which commences 1 April and ends 31 March.
4. **Proper accounting practices** are as defined in section 12 of the Local Government in Scotland Act 2003.
5. A **capital grant and a capital contribution** is a grant or contribution recognised by an authority which has been used, or is to be used, to fund capital expenditure of the local authority.
6. A **revenue grant** is a grant which may be described as a capital grant by the grant provider but the grant conditions permit the local authority to use the grant to fund capital expenditure of third parties and the local authority has relied on this condition to fund a grant to, or the direct expenditure of, a third party.

#### APPLICATION

7. This statutory guidance applies from the financial year commencing 1 April 2017.

#### GRANTS, CONTRIBUTIONS AND DONATED ASSETS

8. This guidance applies to capital grants and contributions and donated assets where the recognition criteria have been met, no conditions remain outstanding, and the income has been recognised in the Comprehensive Income and Expenditure Account (CIES).
9. Local authorities shall account for grants, contributions and donated assets in accordance with proper accounting practices before applying these statutory accounting requirements unless those practices conflict with this statutory guidance.

***Revenue grants (see definition above)***

10. A capital grant may only be accounted for as a revenue grant at the point the grant aid, either direct expenditure, or the provision of grant to a third party for a capital project, is recognised. Until that point it is a capital grant, and if it remains unapplied it is to be transferred to the Capital Grants Unapplied Account.

11. Any grant or contribution recognised in the CIES which has been used to fund third party capital projects in the year of receipt is to be treated as service revenue grant income in the CIES. No statutory adjustment is to be made. The value of the grant treated as service revenue grant income may not exceed the value of the expenditure on third party capital projects.

12. Where a grant or contribution is held in the Capital Grants Unapplied Account and the authority subsequently uses this grant or contribution to fund grant aid to third parties for capital projects a statutory adjustment is required. The transfer of grant from the Capital Grants Unapplied Account (DR) to the General Fund (CR) shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The value of grant transferred may not exceed the value of the expenditure on third party capital projects which the grant is funding.

***Capital grants and capital contributions where no conditions remain outstanding – capital expenditure has been incurred***

13. All capital grant and capital contributions received in any financial year which have been used to fund capital expenditure of the local authority are to be recognised in the Taxation and non-specific grant income line of the Comprehensive Income and Expenditure Statement. The grant or contribution is not income that may be credited to the General Fund and therefore the grant or contribution is to be transferred from the General Fund (DR) to the Capital Adjustment Account (CR). This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

***Capital grants and capital contributions where no conditions remain outstanding – expenditure has not been incurred***

14. Where grant conditions are met but the grant has not yet been applied the grant shall be recognised in the Taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. As the expenditure to be funded from that grant or contribution has not been incurred at the Balance sheet date, the grant or contribution shall be transferred from the General Fund (DR) to the Capital Grants Unapplied Account (CR). This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis line in the Movement in Reserves Statement.

15. When, at a future date, the expenditure to be funded from the grant or contribution is incurred, the treatment of the grant will depend on the nature of the expenditure to be funded from the grant.

16. Where the grant or contribution (or part thereof) funds the capital expenditure of the local authority the grant or contribution shall be transferred from the Capital Grants Unapplied Account (DR) to the Capital Adjustment Account (CR). This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis line in the Movement in Reserves Statement.

17. Where the grant or contribution (or part thereof) funds third party capital projects the grant or contribution shall be transferred from the Capital Grants Unapplied Account (DR) to the General Fund (CR). This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis line in the Movement in Reserves Statement.

### ***Donated assets where no conditions remain outstanding***

18. A donated asset shall be recognised in the Taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. As this is not income that may be credited to the General Fund this income shall be transferred from the General Fund (DR) to the Capital Adjustment Account (CR). This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis line in the Movement in Reserves Statement.

## **ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS**

### ***Statutory Adjustments***

19. All statutory adjustments made in accordance with this guidance are to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The CIPFA-LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires an analysis of statutory adjustments either in the Movement in Reserves Statement itself or in a note.

20. The analysis of the statutory adjustments should clearly identify each statutory adjustment made. A local authority may choose the descriptor for each statutory adjustment but it should reflect the reason for the adjustment.

21. The analysis of statutory adjustments should not include a statutory adjustment where the amount of any adjustment is zero in the two financial years covered by the Movement in Reserves Statement.

### **Amendments to Local Government Finance Circular 4/2010**

#### ***Statutory charge for lifecycle replacements – capital expenditure***

22. From the financial year commencing 1 April 2016 paragraph 27 d) of Part 2 of the Local Government Finance Circular 4/2010 is replaced with the following:

“d) where the capital expenditure is equal to, or less than, the planned expenditure but exceeds the unitary payment (after deducting those amounts charged to the Comprehensive Income and Expenditure Statement) together with any balance of



lifecycle prepayments, the statutory charge for the year is equal to the lifecycle prepayment plus the balance remaining of the unitary payment after deducting those amounts charged to the Comprehensive Income and Expenditure Statement”.

***Donated assets in PFI and similar arrangements***

23. From the financial year commencing 1 April 2017 paragraph 35 of Part 2 of the Local Government Finance Circular 4/2010 is replaced with the following:

“35. Where the capital expenditure is greater than the lifecycle costs identified in the contract the statutory charge to the General Fund is equal to the contract cost. The excess of expenditure is a gain to be recognised. The asset is effectively ‘donated’ by the operator and, where all conditions are met, income is recognised in the Comprehensive Income and Expenditure Statement. This income is not income that may be credited to the General Fund and therefore when any such donated asset is recognised in the Comprehensive Income and Expenditure Statement a statutory adjustment equal to the income recognised must be charged to the General Fund via the Movement in Reserves Statement.”

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***Scottish Government***  
***Victoria Quay, Leith, Edinburgh EH6 6QQ***

***15 February 2018***

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