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## Local Government Finance Circular No 1/2019

By email

To: Directors of Finance of Scottish local authorities  
Audit Scotland

Our ref: A22615958  
26 February 2019

Dear Director of Finance,

### ACCOUNTING FOR EQUAL PAY

Local Government Finance Circular 4/2015 was issued to provide a financial flexibility to assist a local authority in settling equal pay claims. It enabled a local authority to delay the financial impact arising from making an equal pay provision until the payment was actually made. It also provided Ministers' agreement to the use of capital receipts to fund the settlement of equal pay claims. This financial flexibility ceased on 1 April 2018.

Following representation from COSLA, Scottish Ministers have agreed to extend the financial flexibility for a further two financial years, to 1 April 2020. This new Circular sets out the new arrangements. It provides for a similar flexibility to that previously provided, with the statutory accounting arrangements changed to simplify the accounts and address issues that arose from the previous guidance.

This circular is also available from the Scottish Government website at:  
<https://www.gov.scot/policies/local-government/local-government-accounting/>

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

Yours faithfully,

A handwritten signature in blue ink that reads "Hazel Black".

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

# ACCOUNTING FOR EQUAL PAY

## Scottish Government

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### Contents

#### Part 1 – Background

#### Part 2 – Guidance on proper accounting practices – equal pay

*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 - Local Government Finance Circular 4/2015

1. Local Government Finance Circular 4/2015 permitted, for the financial years 2014-15 to 2017-18 a statutory adjustment for any new, or increase in, an equal pay provision. The deferred charge for the equal pay provision was held in the Equal pay provision statutory adjustment account. The deferred charge was written back to the General Fund/ HRA when the provision was de-recognised (payments were made or the provision was reduced).

2. At 31 March 2019, the Equal pay statutory adjustment account is required to equal zero, with any deferred charge being transferred back to the General Fund/HRA and any capital receipts transferred to the Capital fund / Capital receipts reserve.

### Extension of the deferral of the equal pay provision - statutory adjustment

3. Scottish Ministers have agreed that a deferred charge for an equal pay provision held as a statutory adjustment at 31 March 2018 may continue to be held until the equal pay back pay payment is made. Further, if a local authority increases an equal pay provision in the financial years 2018-19 and 2019-20 this increase in cost may also be deferred.

4. The accounting for the deferral (statutory adjustment) has been revised to simplify the accounting. Instead of using an Equal pay provision statutory adjustment account the deferred charge for the equal pay provision is to be held as part of the Employee statutory adjustment account.

### *Transition arrangements*

5. Should a local authority wish to continue to defer the charge for an equal pay provision, the value held in the Equal pay provision statutory adjustment account at 31 March 2018 is transferred to the Employee statutory adjustment account.

### *Deferral of the charge for an equal pay provision 2018-19 and 2019-20*

6. For the financial years 2018-19 and 2019-20 a statutory adjustment may be made for any new, or increase in, an equal pay provision (Cr General Fund/HRA / Dr Employee statutory adjustment account).

7. When an equal pay provision is derecognised, due to payments being made or the provision being reduced, the deferred charge for the provision held in the Employee statutory adjustment account must be transferred back to the General Fund / HRA (Cr Employee statutory adjustment account, Dr General Fund/HRA).

8. It may be the case that the full equal pay provision on a local authority's balance sheet does not match the deferred charge held in the Employee statutory adjustment account. When the statutory adjustment was first introduced only increases in an equal pay provision were permitted to be deferred. This recognised that provisions previously made have been funded from the General Fund / HRA. To ensure a statutory adjustment is not held longer than necessary the amount of the deferred charge which is required to be charged back to the General Fund / HRA is the same value as the amount of provision being derecognised. Where the deferred charge is less than the de-recognition value the full amount deferred is to be charged back to the General Fund / HRA.

9. As a new flexibility, a local authority may continue to hold a deferred charge for an equal pay provision as a statutory adjustment until the equal pay back payment is paid to the employee. This means that whilst no new statutory adjustments may be made for any new, or increases in, an equal pay provision after 31 March 2020, those amounts held as a statutory adjustment at 31 March 2020 may continue to be held as deferred until payments are made or the provision is reduced.

### **Use of capital receipts to fund equal pay**

10. Scottish Ministers have also agreed that capital receipts currently set aside for equal pay may continue to be held to fund equal pay settlements. Capital receipts received in 2018-19 and 2019-20 may be set aside to fund equal pay. The accounting for this use of capital receipts has been also been changed to simplify the accounting.

### *Transition arrangements*

11. Where a local authority chooses to continue to defer the charge for an equal pay provision, the capital receipts held in the Equal pay statutory adjustment account will now be held in the Capital grants unapplied account, which is to be renamed the Capital grants and receipts unapplied account. A retrospective restatement is required so that the balance on the capital grants and receipts unapplied account as at 31 March 2018 is restated to include the capital receipts and renamed at that date. The account should continue to be named the Capital grants and receipts unapplied account until the year that the last capital receipts are used. In the following year it should revert to the capital grants unapplied account.

12. The amount of capital receipts held in the Capital grants and receipts unapplied account cannot exceed the amount necessary to fund the deferred charge for equal pay which was transferred to the Employee statutory adjustment account. Any excess of capital receipts must be transferred to the Capital fund/Capital receipts reserve.

#### *Capital receipts set aside in 2018-19 and 2019-20*

13. A local authority is required to act prudently. A local authority should endeavour to meet equal pay settlement from revenue or revenue reserves where possible.

14. New capital receipts set aside to fund equal pay will be held in the Capital grants and receipts unapplied account.

15. Capital receipts may not be transferred to the Employee statutory adjustment account.

16. Where a local authority plans to use capital receipts to fund equal pay the requirement to credit the statutory Capital fund / Capital receipts reserve of an amount equal to asset disposal proceeds (capital receipt) is varied. A local authority may credit the Capital grants and receipts unapplied account with some or all of the capital receipt. The amount of capital receipts that may be held in the Capital grants and receipts unapplied account cannot exceed the amount necessary to fund the deferred charge for equal pay held in the Employee statutory adjustment account. The allocation of capital receipts to the Capital grants and receipts unapplied account forms part of the statutory adjustment for gains and losses on the disposal of assets.

17. All capital receipts set aside to fund equal pay must first be transferred to the capital grants and receipts account and be recorded as a statutory adjustment (as part of the gains /losses on disposal). A second transaction is then required to recognise the transfer from the Capital grants and receipts unapplied account to the General Fund / HRA. This second transaction is a movement in usable reserves. This requirement for two transactions also applies to capital receipts received, and applied, in the same financial year.

18. Capital receipts held in the Capital fund or the Capital receipts reserve are not available to fund the deferred charge for the equal pay provision held in the Employee statutory adjustment account. Only those set aside at the time of the disposal and held in the Capital grants and receipts unapplied account may be used. Scottish Ministers have no statutory power to permit capital receipts held in the Capital fund / Capital receipts reserve to be used for equal pay.

#### *Capital receipts to fund equal pay*

19. Capital receipts held in the Capital grants and receipts unapplied account may only be transferred to the General Fund / HRA where an equal pay provision is de-recognised due to an equal pay back payment being made.

20. Where the equal pay provision is derecognised due to payments being made, a local authority may transfer the capital receipts from the Capital grants and receipts unapplied account to the General Fund / HRA. The value of capital receipts transferred may not exceed the deferred charge being transferred back to the General Fund/HRA due to payments being made. This transfer of capital receipts is to be treated as a transfer in usable reserves and not a statutory adjustment.

21. Where a provision is derecognised due to an equal pay provision being reduced, an adjustment to capital receipts may be required. The amount of capital receipts held in the Capital grants and receipts unapplied account cannot exceed the amount necessary to fund the deferred charge for equal pay held in the Employee statutory adjustment account. Any capital receipts held which exceed the deferred charge must be transferred from the Capital grants and receipts unapplied account to the Capital fund / Capital receipts reserve. This is a transfer in usable reserves.

22. As at new flexibility, a local authority may continue to hold capital receipts in the Capital grants unapplied account until the equal pay back payment is made. This means that whilst no new capital receipts may be transferred to the Capital grants unapplied account after 31 March 2020, those capital receipts held in that account as at 31 March 2020 may continue to be held until the deferred charge for the equal pay provision held in the Employee statutory adjustment account is charged back to the General Fund/HRA. Whether the capital receipts are transferred to the General Fund/HRA or the Capital Fund will depend on the reason for the deferred charge for the equal pay provision being transferred back to the General Fund.

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

### *Statutory Adjustments*

23. 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.

24. The statutory adjustments permitted are:

- (a) the deferral of the charge for an increase in an equal pay provision;
- (b) the reversal of the deferred charge for the equal pay provision when an equal pay provision is derecognised;
- (c) capital receipts transferred to the Capital grants and receipts unapplied account when an asset is sold (limits apply).

25. As part of the disclosure for the Employee statutory adjustment account a local authority is required to identify, separately, the amount held in that account for equal pay and the amount held in that account for short term accumulating paid absences. A prior year comparator is required.

### *Capital receipts to fund equal pay*

26. When an equal pay provision is derecognised due to payments being made, the transfer of capital receipts to the General Fund/ HRA is a transfer in usable reserves (Dr Capital grants and receipts unapplied Cr General Fund/ HRA).

27. When more capital receipts are held in the Capital grants and receipts unapplied account than permitted under the guidance, the transfer of any excess to the Capital fund/ Capital receipts reserve is a transfer in usable reserves (Dr Capital Grants and receipts unapplied account Cr Capital Fund/ Capital receipts).

28. It is important that there is transparency in the use of capital receipts. As part of the disclosure in the Annual Accounts for the Capital grants and receipts unapplied account a local authority is required to identify, separately, the amount held in that account for capital grants and the amount of capital receipts held for equal pay. A prior year comparator is required.

29. There are now a number of purposes for which capital receipts may be used. It is important that these purposes, and associated values, are disclosed as part of an analysis of the movement in usable reserves in Annual Accounts. The recently issued revised statutory guidance on Financial Instruments (LG circular 7/2018) includes the requirement for an analysis of the movement in usable reserves for capital receipts used to fund premiums. The transfer of capital receipts to the General Fund / HRA to fund equal pay is to be disclosed as part of the analysis of the movement in usable reserves. This analysis may be in the Movement in Reserves Statement itself or in the notes.

Scottish Government  
Local Government and Analytical Services Division  
26 February 2019

## [PART 2]

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### ACCOUNTING FOR EQUAL PAY

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

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#### DEFINITIONS

**Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c.39).

**General Fund** means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973. The Housing Revenue Account (HRA) is a statutory account forming part of the General Fund which a council may be required to keep in accordance with the Housing (Scotland) Act 1987.

**Financial year** is a year which commences 1 April and ends 31 March.

**Proper accounting practices** are as defined in section 12 of the Local Government in Scotland Act 2003.

**Accounting Code** – the CIPFA-LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### APPLICATION

1. This statutory guidance applies from the financial year commencing 1 April 2018.

#### DEFERRAL OF CHARGE FOR EQUAL PAY PROVISION

2. Should a local authority choose not to continue to defer the charge for an equal pay provision Local Government Finance Circular 4/2015 applies.

3. Should a local authority wish to continue to defer the charge for an equal pay provision, an amount equal to, or less than, the amount held in the Equal pay provision statutory adjustment account as at 31 March 2018, may be transferred to the Employee statutory adjustment account.

4. For the financial years 2018-19 and 2019-20 a statutory adjustment may be made for any new, or increase in, an equal pay provision (Cr Employee statutory adjustment account Dr General Fund / HRA).

5. When an equal pay provision is derecognised, due to payments being made or the provision being reduced, the deferred charge for the provision held as a statutory adjustment in the Employee statutory adjustment account is to be charged back to the General Fund / HRA in accordance with the following rules:

5.1 Where the equal pay provision is derecognised due to a payment being made and that payment is greater than, or equal to, the deferred charge for the provision held in the Employee statutory adjustment account a sum equal to the deferred charge is to be transferred back to the General Fund / HRA (Cr Employee statutory adjustment account Dr General Fund / HRA).

5.2 Where the equal pay provision is derecognised due to a payment being made and that payment is less than the deferred provision held in the Employee statutory adjustment account a sum equal to the payment is to be transferred back to the General Fund / HRA.

5.3 The principles set out in 5.1 and 5.2 for reductions in a provision due to a payment also apply where the equal pay provision is derecognised due to a reduction in the provision. Credits to the General Fund / HRA from a reduction in an equal pay provision must be matched with a release of the deferred charge up to the value of the deferred charge held in the Employee statutory adjustment account.

## **USE OF CAPITAL RECEIPTS TO FUND EQUAL PAY**

6. Should a local authority choose to continue to defer the charge for an equal pay provision in accordance with paragraph 3, those capital receipts set aside in the Equal pay provision statutory adjustment account as at 31 March 2018 may continue to be held to fund the deferred equal pay provision. These capital receipts are to be held in the Capital grants unapplied account, which is to be renamed as the Capital grants and receipts unapplied account. A retrospective restatement is required so that the balance on the Capital grants and receipts unapplied account as at 31 March 2018 is restated to include the capital receipts and renamed at that date. The value of capital receipts that are held in the Capital grants and receipts unapplied account cannot exceed the amount required to fund the deferred charge for the equal pay provision held in the Employee statutory adjustment.

7. The account should continue to be named the Capital grants and receipts unapplied account until the year that the last capital receipts are used. In the following year it should revert to the Capital grants unapplied account.

8. Capital receipts recognised in 2018-19 and 2019-20 may be transferred to the Capital grants and receipts unapplied account as a statutory adjustment (as part of the statutory adjustment for gains and losses on the disposal of assets). This is subject to the following restriction. The amount of capital receipts held for equal pay in the Capital grants and receipts unapplied account cannot exceed the amount required to fund the deferred charge for the equal pay provision held in the Employee statutory adjustment account.

9. Capital receipts may not be held in the Employee statutory adjustment account.

10. Capital receipts held in the statutory Capital fund or the Capital receipts reserve are not available to fund equal pay.

11. Capital receipts may not be transferred directly to the General Fund / HRA to fund equal pay payments. All capital receipts must first be credited to the Capital grants and receipts unapplied account as a statutory adjustment.

12. The amount of capital receipts held in the Capital grants and receipts unapplied account may not at any time exceed the amount necessary to fund the deferred charge for equal pay held in the Employee statutory adjustment account. Excess capital receipts must be transferred to the Capital fund / Capital receipts reserve. This is a transfer in usable reserves.

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

### ***Statutory Adjustments***

13. 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 as required or permitted in this guidance.

14. The statutory adjustments for equal pay are:  
(a) the deferred charge when there is an increase in an equal pay provision;  
(b) the reversal of the deferred charge when an equal pay provision is derecognised;  
(c) the capital receipts transferred to the Capital grants and receipts unapplied account when an asset is sold.

15. As part of the disclosure for the Employee statutory adjustment account a local authority is required to identify, separately, the amount held in that account for equal pay and the amount held in that account for short term accumulating paid absences. A prior year comparator is required.

### ***Use of capital receipts***

16. The transfer of capital receipts held in the Capital grants and receipts unapplied account to either the General Fund / HRA or the Capital Fund / Capital receipts reserve is not a statutory adjustment. This transfer is to be reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement.

17. An analysis of the reason for each transfer of capital receipts from the Capital grants and receipts unapplied account to the General Fund / HRA or to the Capital fund / Capital receipts reserve shall be made either in the Movement in Reserves Statement itself or in the notes.

18. For the transfer of capital receipts to fund all or part of the deferred charge for equal pay now being charged to the General Fund / HRA, the suggested descriptor for the analysis is “Use of capital receipts to fund equal pay”.

19. As part of the disclosure in the Annual Accounts for the Capital grants and receipts unapplied account a local authority is required to identify, separately, the amount held in that account for capital grants and the amount of capital receipts held for equal pay. A prior year comparator is required.

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

**26 February 2019**

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