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Scottish Government
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Local Government Finance Circular No 2/2023

By email

To: Directors of Finance of Scottish local authorities
Audit Scotland

Our ref: A42329235
3 February 2023

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 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. Local Government Finance Circular 1/2019 extended this flexibility to 1 April 2020.

In light of continuing equal pay claims for some local authorities in Scotland, the Scottish Ministers have agreed to again extend the financial flexibility to permit the deferral of equal pay provisions for a further four financial years from 1 April 2020 to 31 March 2024 inclusive. The financial flexibility for the use of capital receipts to meet equal pay claims has not been extended. This Circular sets out the new arrangements.

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 "E. Davies".

Elanor Davies
Head of Local Authority Accounting
Local Government and Analytical Services Division

ACCOUNTING FOR EQUAL PAY

Scottish Government

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.

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 was 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.

Local Government Finance Circular 1/2019

3. The Scottish Ministers 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, but transferred to the Employee Statutory Adjustment Account. Further, if a local authority increased an equal pay provision in the financial years 2018-19 and 2019-20 this increase in cost could also be deferred.

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

4. The Scottish Ministers have now agreed to extend the financial flexibility to allow a deferred charge for an equal pay provision held as a statutory adjustment at 31 March 2020 to continue to be held in the Employee Statutory Adjustment Account until the equal pay back pay payment is made. Further, if a local authority increases an equal pay provision in the financial years 2020-21 to 2023-24 this increase in cost may also be deferred in the Employee Statutory Adjustment Account.

5. Where the 2021-22 accounts of a local authority have been signed off, the statutory adjustments for 2020-21 and 2021-22 should be made cumulatively with the 2022-23 adjustments in the 2022-23 accounts.

6. Where the 2021-22 accounts of a local authority have not yet been signed off, the statutory adjustment for 2020-21 should be made with the 2021-22 adjustment in the 2021-22 accounts.

7. No prior year adjustments are required.

Statutory Adjustment - Deferral of the Charge for an Equal Pay Provision 2020-21 to 2023-24

8. For the financial years 2020-21 to 2023-24 a statutory adjustment may be made for any new, or increase in, an equal pay provision (Dr Employee Statutory Adjustment Account, Cr General Fund/HRA).

9. 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 (Dr General Fund/HRA, Cr Employee statutory adjustment account).

10. 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.

Annual Accounts – statutory reporting requirements

Statutory Adjustments

11. 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.

12. 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;

13. 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.

Scottish Government
Local Government and Analytical Services Division
3 February 2023

[PART 2]

ACCOUNTING FOR EQUAL PAY

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

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 2020.

DEFERRAL OF CHARGE FOR EQUAL PAY PROVISION

2. A deferred charge for an equal pay provision held as a statutory adjustment at 31 March 2020 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 2020-21 to 2023-24 this increase in cost may also be deferred.

3. Should a local authority wish to defer the charge for an equal pay provision incurred in the financial years 2020-21 to 2023-24, this may be transferred to the Employee Statutory Adjustment Account.

4. For the financial years 2020-21 to 2023-24 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. Where the 2021-22 accounts of a local authority have been signed off, the statutory adjustments for 2020-21 and 2021-22 should be made cumulatively with the 2022-23 adjustments in the 2022-23 accounts.

6. Where the 2021-22 accounts of a local authority have not yet been signed off, the statutory adjustment for 2020-21 should be made with the 2021-22 adjustment in the 2021-22 accounts.

7. No prior year adjustments are required.
8. 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:
- 8.1 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).
- 8.2 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.
- 8.3 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.

ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS

Statutory Adjustments

9. 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.
10. 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;
11. 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.