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Local Government Finance Circular No 6/2023

(Temporary Amendment to Finance Circular 3/2018)

By email

To: Directors of Finance of Scottish local authorities
Audit Scotland

Our ref: A45437065

28 November 2023

TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018
CAPITAL GRANT PROVIDED IN PLACE OF REVENUE GRANT

Local authorities have agreed to accept £70 million of General Capital Grant, in place of General Revenue Grant in 2023-24.

In addition, the Scottish Government has agreed to provide £22 million of further General Capital Grant to fund the Local Government pay award in 2023-24.

In order to ensure that the General Capital Grant can be utilised within 2023-24, the Scottish Ministers have agreed to permit a temporary amendment to the current statutory accounting requirements for capital grants, described in [Local Government Finance Circular 3/2018](#).

The accounting requirements set out in this statutory guidance provide a temporary amendment to Finance Circular 3/2018 for 2023-24 and apply specifically to the £70 million of General Capital Grant provided in place of revenue grant in 2023-24 and to the additional £22 million of General Capital Grant provided to fund the Local Government pay award.

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,

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TEMPORARY STATUTORY ACCOUNTING FLEXIBILITY – CAPITAL GRANT

Scottish Government

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Part 2 – Guidance on proper accounting practices – capital grants

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

1. Local authorities have agreed to accept £70 million of General Capital Grant in place of revenue grant in 2023-24. In addition, the Scottish Government has agreed to provide £22 million of further General Capital Grant to fund the Local Government pay award in 2023-24.
2. In order to allow local authorities to utilise the General Capital Grant in 2023-24 and release an equivalent amount of revenue reserves for other purposes, the Scottish Ministers have agreed to permit a temporary amendment to the current statutory accounting requirements for capital grants, as set out in [Local Government Finance Circular 3/2018](#).
3. The amendment is only applicable to the £70 million of General Capital Grant, provided in place of revenue grant and to the £22 million of additional General Capital Grant provided towards the Local Government pay award, and paid in 2023-24.
4. The amendment to Finance Circular 3/2018 will enable local authorities to transfer the capital grant to the Capital Fund in order that it may be used to provide money for the repayment of the principal of loans fund both General Fund and HRA loan repayments.

FINANCE CIRCULAR 3/2018 – ACCOUNTING FOR CAPITAL GRANTS, CONTRIBUTIONS AND DONATED ASSETS

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

5. Paragraph 13 of Part 2 of Finance Circular 3/2018 requires that “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.

TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018

6. The statutory guidance in Part 2 provides a temporary amendment to paragraph 13 of Part 2 of Finance Circular 3/2018 to allow the capital grant to be transferred to the Capital Fund rather than to the Capital Adjustment Account. The amendment applies solely to the £70 million of additional capital grant, provided in place of revenue grant, in 2023-24.

Use of Capital Grant for Principal Loan Repayments (General Fund & HRA)

7. Schedule 3 of the Local Government (Scotland) Act 1975 permits a local authority to establish a Capital Fund “to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest on loans)”.

8. Paragraph 14 of Finance Circular 7/2016 states that a Capital Fund may be used to provide money for the repayment of the principal of loans (but not any payment of interest on loans). Where the Capital Fund is used to fund the annual statutory repayment of debt this is to be treated as a separate transaction. This means that the statutory repayment of debt must still be charged, in full, to the General Fund (debit General Fund, credit Capital Adjustment Account). The transfer from the Capital Fund (debit) to the General Fund (credit) is a separate transaction to be reported as a transfer to or from other statutory reserves in the Movement in Reserves Statement.

9. Only the capital grant referred to in this guidance and utilised to fund principal loan repayments may be transferred to the Capital Fund.

10. Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement.

11. The capital grant must be utilised in 2023-24 and therefore may not be transferred to the Capital Grants Unapplied Account/Capital Grants and Receipts Unapplied Account.

Use of Capital Grant for Principal Loan Repayments (HRA) – Consent of the Scottish Ministers

The Housing (Scotland) Act 1987

12. Section 203 of The Housing (Scotland) Act 1987 (the 1987 Act) sets out the statutory requirements for a local authority to keep a Housing Revenue Account (HRA) of the income and expenditure of the authority for each year in respect of the houses, buildings and land specified in Part I of Schedule 15 of the Act.

13. Schedule 15 of the 1987 Act sets out the debits and credits to be carried to the HRA. Paragraph 2(5) of Schedule 15 permits that “For any year, the local authority may, with the consent of the Secretary of State, carry to the credit of the account, in addition to the amounts required by the foregoing provisions of this Schedule, such further amounts, if any, as they think fit.”

14. Paragraph 6 of Schedule 15 permits that “A local authority may, with the consent of the Secretary of State, exclude from the housing revenue account any of the items of income or expenditure mentioned in the foregoing provisions of this Schedule, or may with such consent include any items of income or expenditure not mentioned in those foregoing provisions.”

15. The consent of the Scottish Ministers is therefore required in order to permit HRA loan repayments to be met from capital grant.

16. The statutory guidance in Part 2 provides the consent of the Scottish Ministers for the capital grant to be transferred to the Capital Fund and subsequently applied to provide money for the principal element of HRA loan repayments.

Disclosure of Statutory Adjustments

17. 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.

Scottish Government
Local Government and Analytical Services Division
28 November 2023

[PART 2]

ACCOUNTING FOR CAPITAL GRANTS

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

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 or 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 for the 2023-24 financial year. This guidance is only applicable to the £70 million of General Capital Grant, provided in place of revenue grant and to the £22 million of additional General Capital Grant provided towards the Local Government pay award, and paid in 2023-24 and amends the provisions of paragraph 13 of Finance Circular 3/2018.

CAPITAL GRANT – TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018

8. Local authorities shall account for this capital grant in accordance with proper accounting practices before applying these statutory accounting requirements unless those practices conflict with this statutory guidance.
9. The amendment to Finance Circular 3/2018, set out below, will enable local authorities to transfer the capital grant referred to in this guidance to the Capital Fund in order that it may be used to provide money for the principal element of both General Fund and HRA loan repayments.

Use of Capital Grant to Fund Loans Fund Repayments (General Fund & HRA)

10. The capital grant may be used to meet the principal element of both General Fund and HRA loan repayments (but not any payment of interest on the loan) in line with the terms and conditions of the capital consent letter.

11. Where the capital grant is to be used to meet the principal element of loan repayments the statutory adjustment, set out in paragraph 13 of Part 2 of Finance Circular 3/2018, to transfer the capital grant to the Capital Adjustment Account, is not required.

12. The statutory repayment of debt must still be charged, in full, to the General Fund (debit General Fund, credit Capital Adjustment Account).

13. Capital grant to be applied to the repayment of the principal of loans will be transferred to the Capital Fund. Once the capital grant is applied to fund the repayment of the principal of loans a separate transaction will be required to transfer the capital grant from the Capital Fund (debit) to the General Fund or HRA (credit). The transfer from the Capital Fund to the General Fund or HRA is a separate transaction to be reported as a transfer to or from other statutory reserves in the Movement in Reserves Statement.

14. Only capital grant applied to meet the principal of loan repayments may be transferred to the Capital Fund and subsequently transferred to the General Fund or HRA.

Use of Capital Grant for Principal Loan Repayments (HRA) – Consent of the Scottish Ministers

15. The Scottish Ministers consent to the transfer of the General Capital Grants referred to in paragraph 8 above to the Capital Fund and subsequent use to provide money for the principal element of HRA loan repayments (but not any interest on loan repayments).

Capital Grant Used for Other Purposes

16. The terms and conditions of the general capital grant require it to be utilised within the financial year provided. As such, the grant may not be retained within General Fund reserves or transferred to the Capital Grants Unapplied Account/Capital Grants and Receipts Unapplied Account for future use.

17. Any unused capital grant must be returned to the Scottish Government.

18. Any capital grant which is not used to meet the principal element of loan repayments will be accounted for in accordance with Finance Circular 3/2018 which requires that, once utilised, the grant is transferred to the Capital Adjustment Account (debit General Fund, credit Capital Adjustment Account).

ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS

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.

Scottish Government

28 November 2023

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