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**Local Government Finance Circular No 3/2026**  
(Temporary Amendment to Finance Circular 3/2018)

By email

To: Directors of Finance of Scottish local authorities  
Audit Scotland

Our ref: A54911961  
3 March 2026

**TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018**  
**FLEXIBLE USE OF GENERAL CAPITAL GRANT**

The Scottish Ministers have agreed to a temporary amendment to the current statutory accounting requirements for capital grant, set out in [Local Government Finance Circular 3/2018](#). The amendment will allow local authorities to replace reserves held for capital investment purposes with General Capital Grant, in order to allow those reserves to be used to fund other pressures in 2025-26.

In accordance with Schedule 15 of the Housing (Scotland) Act 1987, the statutory guidance also provides the consent of the Scottish Ministers for General Capital Grant to be used to fund Housing Revenue Account (HRA) capital expenditure.

The capital consent letter issued in December 2025 and subsequently revised and reissued in March 2026 details the general capital grant allocations to which this flexibility relates.

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,

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

# TEMPORARY STATUTORY ACCOUNTING FLEXIBILITY – CAPITAL GRANT

## *Scottish Government*

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#### Part 1 – Background

#### 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.*

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## PART 1 – BACKGROUND AND COMMENTARY

### Background

1. The Scottish Ministers have agreed to allow local authorities to replace reserves held for capital investment purposes with general capital grant in 2025-26.
2. In accordance with Schedule 15 of the Housing (Scotland) Act 1987, the statutory guidance also provides the consent of the Scottish Ministers for General Capital Grant to be used to fund Housing Revenue Account (HRA) capital expenditure.
3. The capital consent letter issued in December 2025 and subsequently revised and reissued in March 2026 details the general capital grant allocations to which this flexibility relates.
4. Local authorities may utilise the general capital grant, as detailed in the capital consent letter, to fund the HRA capital programme and to replace reserves held for capital investment purposes with the capital grant, allowing those reserves to be used to fund other pressures.
5. Scottish Ministers have agreed to permit the following statutory flexibilities:
  - A local authority may transfer general capital grant to the Capital Fund in order that it may subsequently be applied to fund the principal element of both General Fund and Housing Revenue Account (HRA) loan repayments.
  - A local authority may utilise the general capital grant for HRA capital expenditure.
6. To facilitate the above flexibilities, a temporary amendment to the current statutory accounting requirements for capital grant, as set out in Finance Circular 3/2018, is provided by this circular.
7. In accordance with Schedule 15 of the Housing (Scotland) Act 1987, Ministerial consent is also required to permit the use of General Capital Grant to meet HRA capital expenditure. The statutory guidance provides that consent.

## **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**

8. 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.

### **Capital grant used to fund capital expenditure of the local authority where no conditions remain outstanding – capital expenditure has not been incurred**

9. Paragraph 14 of Part 2 of Finance Circular 3/2018 requires that “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.

### **Capital grant used to fund capital expenditure of the local authority where no conditions remain outstanding – capital expenditure subsequently incurred**

10. Paragraph 16 of Part 2 of Finance Circular 3/2018 requires that “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.

## **THE HOUSING (SCOTLAND) ACT 1987**

11. 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.
12. Schedule 15 of the 1987 Act sets out the debits and credits to be carried to the HRA. Paragraph 2(5) of Schedule 15 provides 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.”

13. Paragraph 6 of Schedule 15 provides 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.”
14. The consent of the Scottish Ministers is therefore required to permit General Capital Grant to be used to meet HRA capital expenditure.

### **TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018**

15. The statutory guidance in Part 2 provides a temporary amendment to paragraph 13 of Part 2 of Finance Circular 3/2018 to allow general capital grant to be transferred to the Capital Fund rather than to the Capital Adjustment Account. This exception may only be applied in the 2025-26 financial year.

### **Use of the Capital Fund for principal loan repayments (General Fund & HRA)**

16. Paragraph 22(1)(a) of 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)”. There are no restrictions within the 1975 Act on the use of this fund to meet HRA loans fund repayments. The Housing (Scotland) Act 1978, whilst specifically excluding contributions from the General Fund to the HRA, unless Ministerial consent is provided, contains no similar provisions in relation to the Capital Fund and therefore does not preclude the use of the Capital Fund to meet HRA capital costs.
17. 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 or Housing Revenue Account (HRA) (credit) is a separate transaction to be reported as a transfer to or from other statutory reserves in the Movement in Reserves Statement.”
18. Only the capital grant referred to in this guidance and utilised to fund principal loan repayments may be transferred to the Capital Fund.
19. The capital grant must be utilised in 2025-26, unless otherwise agreed in writing by the Scottish Ministers, and therefore may not be transferred to the Capital Grants Unapplied Account/Capital Grants and Receipts Unapplied Account.

## **CONSENT OF THE SCOTTISH MINISTERS TO USE GENERAL CAPITAL GRANT FOR HOUSING REVENUE ACCOUNT (HRA) CAPITAL EXPENDITURE**

### **Use of capital grant to fund capital investment in the Housing Capital Programme**

20. In accordance with Schedule 15 of the Housing (Scotland) Act 1987, as set out in paragraphs 8 to 11 above, the statutory guidance provides the consent of the Scottish Ministers for the General Capital Grant described in paragraph 1 above to be used to fund Housing Revenue Account (HRA) capital expenditure, replacing Housing Revenue Account (HRA) CFCR or other reserves earmarked for that purpose.
21. Once the grant is utilised it will be transferred to the Capital Adjustment Account (DR General Fund and CR Capital Adjustment Account), as required by Finance Circular 3/2018.

### **Capital grant used for other purposes/unused capital grant**

22. The terms and conditions of the General Capital Grant require it to be utilised within the financial year provided. The grant may not be retained within General Fund reserves or transferred to the Capital Grants Unapplied Account for future use. Any capital grant which is not utilised for one of the purposes set out in paragraphs 8 to 18 above must be accounted for in accordance with Finance Circular 3/2018 which requires that, once utilised, the grant is transferred to the Capital Adjustment Account (DR General Fund and CR Capital Adjustment Account).
23. Any unused capital grant must be returned to the Scottish Government, unless otherwise agreed in writing by the Scottish Ministers.

### **Disclosure of statutory adjustments**

24. 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  
3 March 2026

## [PART 2]

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### ACCOUNTING FOR CAPITAL GRANTS

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). It includes a regional transport partnership and other bodies as set out in section 106 of the Local Government (Scotland) Act 1973.

**General Fund** means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973.

**Housing Revenue Account** is a statutory account forming part of the General Fund.

**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.

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.

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

1. This statutory guidance applies for the 2025-26 financial year and amends the provisions of paragraph 13 of Finance Circular 3/2018.
2. This amendment is only available in 2025-26 and is solely applicable to the general capital grant allocations set out in the capital consent letter issued in December 2025 and subsequently revised and reissued in March 2026.
3. The Scottish Ministers have agreed to allow local authorities to replace reserves held for capital investment purposes with general capital grant.
4. In accordance with Schedule 15 of the Housing (Scotland) Act 1987, the Scottish Ministers also provide consent for general capital grant to be used to fund Housing Revenue Account (HRA) capital expenditure, where this is expressly permitted within the conditions of the capital consent letter issued in December 2025.

5. The capital consent letter issued in December 2025, and subsequently revised and reissued in March 2026, details the general capital grant allocations to which this flexibility relates.
6. Local authorities may utilise the general capital grant, as detailed in the capital consent letter, to replace reserves held for capital investment purposes with the capital grant, allowing those reserves to instead fund other pressures.

### **CAPITAL GRANT – TEMPORARY AMENDMENT TO FINANCE CIRCULAR 3/2018**

7. Local authorities shall account for this capital grant in accordance with proper accounting practices before applying the statutory accounting requirements unless those practices conflict with this statutory guidance.

### **Use of capital grant to fund principal loan repayments (General Fund & HRA)**

8. The capital grant may be transferred to the Capital Fund in order that it may subsequently be used to meet the principal element of both General Fund and Housing Revenue Account (HRA) loan repayments (but not any payment of interest on the loan) in line with the terms and conditions of the 2025-26 capital consent letter.
9. Where the capital grant is transferred to the Capital Fund the statutory adjustments set out in paragraph 13, 14 and 16 of Part 2 of Finance Circular 3/2018, to transfer the capital grant to the Capital Adjustment Account, are not required.
10. The statutory repayment of debt must still be charged, in full, to the General Fund (debit General Fund, credit Capital Adjustment Account).
11. 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.
12. Only capital grant applied to meet the principal of loan repayments or HRA capital expenditure may be transferred to the Capital Fund and subsequently transferred to the General Fund or HRA.

### **Use of capital grant to fund capital investment in the Housing Capital Programme**

#### **The Housing (Scotland) Act 1987**

13. 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.

14. In accordance with Schedule 15 of the 1987 Act, which permits, with the consent of the Secretary of State, a local authority to include or exclude items of income or expenditure, this statutory guidance provides the consent of the Scottish Ministers for general capital grant to be used to provide funds for Housing Capital Programme expenditure.
15. Once the grant is utilised it will be transferred to the Capital Adjustment Account (DR General Fund and CR Capital Adjustment Account), as required by Finance Circular 3/2018.

### **Capital grant used for other purposes/unused capital grant**

16. Any capital grant which is not used for the purposes described in paragraphs 10 and 16 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).
17. 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, unless otherwise agreed in writing by the Scottish Ministers.
18. Any unused capital grant must be returned to the Scottish Government.

### **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.