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Local Government Finance Circular 7/2023
(Replaces Local Government Finance Circular 10/2022)
http://www.gov.scot/Topics/Government/local-government/17999/11203

By e-mail: Directors of Finance of Scottish Local Authorities
Copy: Audit Scotland, COSLA, CIPFA

Our ref: A45597863
15 December 2023

Dear Director of Finance,

Accounting for Service Concession Arrangements, Leases and Similar Arrangements

Local Government Finance Circular 7/2023 replaces Local Government Finance Circular 10/2022 and sets out the accounting requirements for service concession arrangements, leases and similar arrangements from 1 April 2024.

The temporary flexibility which permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term was only available for use in either 2022-23 or 2023-24 and only for service concession arrangements in place prior to 1 April 2022 and is therefore not reflected in the new statutory guidance.

With the exception of those service concession arrangements to which the flexibility was applied in either 2022-23 or 2023-24, from 1 April 2024 the annual statutory charge (the statutory repayment of debt) to the General Fund for all existing and new service concession arrangements, leases and similar arrangements must reflect the principal element of the contractual repayments and must be charged to the General Fund over the term of the contract.

For service concession arrangements entered into prior to 1 April 2022, where the temporary flexibility to permit the principal repayments to be accounted for over the asset life rather than contract term was exercised in either 2022-23 or 2023-24, that accounting treatment, as set out Finance Circular 10/2022, may continue to apply.

Yours faithfully

E. Davies

Elanor Davies
Head of Local Authority Accounting

ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS, LEASES AND SIMILAR ARRANGEMENTS

Scottish Government

Contents

Part 1 of this document gives non-statutory guidance only and is not part of the guidance itself, which is contained in Part 2.

PART 1 – COMMENTARY & NON-STATUTORY GUIDANCE

1. Finance Circular 7/2023 applies to all service concession arrangements (PFI/PPP etc.), leases and similar arrangements recognised by a local authority on its balance sheet, in accordance with the Accounting Code. This replaces Finance Circular 10/2022.

2. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) require a local authority to determine the expenditure to be met from borrowing, to make a loans fund advance for that expenditure, and to repay that advance over future financial years as a charge to the general fund. The local authority is to determine the period over which the advance is to be repaid and the amount of repayment to the loans fund (the statutory repayment of debt) in each financial year.

3. Service concession arrangements and leases are credit agreements rather than borrowing and therefore no loans fund advance is made for capital expenditure which is financed by such agreements.

4. However, to ensure consistency with the statutory framework for borrowing, as set out in the 2016 Regulations, the statutory guidance applies the principle that depreciation will not be a charge to the General Fund. The charge to the General Fund will be a '**statutory charge for the repayment of debt'** which recognises the repayment of the principal element of the lease component of the service concession or lease liability for the year.

5. The temporary flexibility which permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term was only available for use in either 2022-23 or 2023-24 and only for service concession arrangements in place prior to 1 April 2022.

6. With the exception of those service concession arrangements to which the statutory flexibility was applied in either 2022-23 or 2023-24, from 1 April 2024 the annual '**statutory charge for the repayment of debt'** to the General Fund for all existing and new service concession arrangements, leases and similar arrangements must reflect the principal element of the contractual repayments and must be charged to the General Fund over the term of the contract.

7. For service concession arrangements entered into prior to 1 April 2022, where the temporary flexibility to permit the principal repayments to be accounted for over

the asset life rather than contract term was exercised in either 2022-23 or 2023-24, the annual ‘statutory charge for the repayment of debt’ to the General Fund may continue to be calculated on the basis of the asset life rather than the contract term, as set out in Finance Circular 10/2022.

8. The statutory guidance (Part 2) retains the option to disapply the statutory adjustments and recognise service concession arrangements, leases and similar arrangements in accordance with the Accounting Code.

9. The statutory guidance applies to all service concession arrangements, leases and similar arrangements where the local authority recognises an asset on their balance sheet in accordance with proper accounting practice.

SERVICE CONCESSION ARRANGEMENTS - PROPER ACCOUNTING PRACTICE

Unitary Payments to the Operator

10. Unitary payments to the operator for a relevant service concession arrangement or lease are to be charged to the Comprehensive Income and Expenditure Statement in accordance with the Accounting Code.

11. Paragraphs 4.3.2.25 and 4.3.2.26 of the Accounting Code require unitary payments to be separated into the elements related to services, repayment of the liability (construction) and interest charges. The service element and interest charges are changes to the Comprehensive Income and Expenditure Account; the liability repayment element reduces the outstanding liability held on the balance sheet.

Depreciation, Impairment and Revaluations

12. Depreciation, impairment and the revaluation of assets recognised by local authorities under service concession arrangements and leases shall be accounted for in accordance with proper accounting practices. This means such assets will be accounted for in the same way as other local authority assets. It also means that these costs are not chargeable to the General Fund and are adjusted through the Movement in Reserves Statement.

13. Depreciation costs are to be charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practices. Depreciation costs are to be excluded when determining the movement on the General Fund balance for the financial year and are adjusted through the Movement in Reserves Statement.

14. Impairment costs are to be charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practices. Impairment costs are to be excluded when determining the movement on the General Fund balance for the financial year and are adjusted through the Movement in Reserves Statement.

15. The revaluation of assets recognised by local authorities under service concession arrangements shall be accounted for in accordance with proper accounting practices. This means such assets will be accounted for in the same way as other local authority assets. It also means that these costs are not chargeable to the General Fund and are adjusted through the Movement in Reserves Statement.

16. On a revalued asset, a transfer between the revaluation reserve and capital adjustment account shall be carried out that represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

STATUTORY CHARGES FOR SERVICE CONCESSION ARRANGEMENTS

Statutory Charge for Lifecycle Replacements - Capital Expenditure

17. The unitary payment may include an element for lifecycle replacement costs. These costs will largely comprise the replacement of components of an asset as they wear out. The Accounting Code permits a local authority to charge lifecycle costs against the unitary payment as they are incurred or to set amounts aside as prepayments over the contract term. Lifecycle replacement costs that cannot be capitalised will be charged to the Income and Expenditure account in accordance with proper accounting practice.

Sums Set Aside as Prepayments Over the Contract Term

18. Sums set aside from the unitary payment as a prepayment for lifecycle costs planned within the contract shall not be a charge to the General Fund when set aside. The statutory charge to the General Fund is made when the capital expenditure is actually incurred and the prepayment is used to meet that cost.

19. Authorities may transfer sums from the General Fund to the Renewals and Repair fund should they wish to identify and set aside funds to finance the capital expenditure when it occurs.

20. If it becomes probable during the contract that the programmed lifecycle replacement costs will not take place, or the authority believes the prepayment is too large the excess should be charged to the Comprehensive Income and Expenditure Statement. Should this occur no statutory adjustment is required. Local authorities would however release a matching amount from the earmarked reserves/ Renewal and Repair fund at the same time to support the charge to the Comprehensive Income and Expenditure Statement.

Charging Lifecycle Costs Against the Unitary Payment as They Are Incurred

21. Where the capital expenditure is equal to the lifecycle cost identified in the contract the statutory charge to the General Fund is equal to the lifecycle cost. The charge to the General Fund will be made via Movement in Reserves Statement as 'Capital expenditure charged to the General Fund balance'.

22. Where the capital expenditure is less than the lifecycle costs identified in the contract the statutory charge to the General Fund is equal to the actual capital expenditure recognised as incurred. The charge to the General Fund will be made via the Movement in Reserves Statement as 'Capital expenditure charged to the General Fund balance'. The difference between the actual capital expenditure incurred and the planned contract value is required to be charged to the Income and Expenditure account in accordance with proper accounting practice. No further statutory adjustment is therefore required.

23. 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 lifecycle costs identified in the contract. The charge to the General Fund will be made via the Movement in Reserves Statement and be recognised as ‘Capital expenditure charged to the General Fund balance’. The excess of expenditure is a gain to be recognised. The asset is effectively ‘donated’ by the operator, and a grant recognised to fund that acquisition through the creation of ‘deferred income’. The deferred capital grant income is then released to the Income and Expenditure account over the life of the asset. This income is not income that may be credited to the General Fund. A statutory adjustment equal to the grant released must be charged to the General Fund via the Movement in Reserves Statement and be recognised as ‘Grants deferred amortisation matching depreciation and impairment’.

Planned Capital Expenditure - Not Undertaken

24. If the planned work is still expected to be undertaken later in the contract the relevant part of the unitary payment will be posted to the balance sheet as a prepayment. The prepayment will not be a statutory charge to the General Fund when the prepayment is posted to the balance sheet. The expenditure will only be charged to the General Fund when the capital expenditure is actually incurred. Paragraphs 19, 20 or 21 will then apply.

Works Undertaken Earlier Than Planned

25. The capital expenditure will need to be charged to the General Fund as incurred. Paragraphs 19, 20 or 21 will apply.

26. It is possible that lifecycle replacement costs may be substantial enough in any year to exceed the unitary payment after deducting the fair value of services. In such cases the statutory charge to the General Fund is equal to the unitary payment after deducting the fair value of services. The charge to the General Fund will be made via the Movement in Reserves Statement and be recognised as ‘Capital expenditure charged to the General Fund balance’. In the subsequent financial year the excess of lifecycle costs will be charged against the unitary payment. This cost will be charged to the General Fund via the Movement in Reserves Statement and be recognised as a ‘statutory repayment of debt’. This recognises that the excess of capital expenditure incurred in the prior year was effectively funded by borrowing in the previous year by increasing the lease liability. The charge to the General Fund in the subsequent year repays that debt.

27. Impairments and the revaluation of assets recognised by local authorities under service concession arrangements shall be accounted for in accordance with proper accounting practices. This means such assets will be accounted for in the same way as other local authority assets. It also means that these costs are not chargeable to the General Fund and are adjusted through the Movement in Reserves Statement.

Local Authority Assets

28. A local authority may provide the operator with access to existing assets of the authority that are not used in the service concession arrangement but are in exchange for reduced or eliminated contractual payments.

29. Where the arrangement involves the permanent transfer of an asset to the operator, or the asset is provided in the form of a lease, the local authority is required to derecognise the asset. The authority is required to recognise the consideration received from the asset / operator. This may be the reduction or elimination of the service concession arrangement outstanding liability. The statutory guidance permits the capital receipt to be applied to the outstanding liability to reflect the reduced liability and hence reduced contractual payments.

30. In such cases no further statutory intervention is required, and the annual charge to the General Fund follows the statutory guidance.

31. Where the arrangement does not involve the permanent transfer of the assets to the operator but is provided as an operating lease no revised balance sheet entries are required to reflect the asset used by the operator. This remains the local authority asset. In such cases the local authority is required to recognise the service concession arrangement infrastructure asset (fair value) and the associated long-term liability. Over the period of the operating lease the authority will recognise income from the operating lease in the Income and Expenditure Account. At the point the income is recognised, there shall be a corresponding reduction in the long-term liability, reflecting the offset arrangements.

32. The statutory charge to the General Fund is unaffected by the operating lease arrangements.

Scottish Government support for Service Concession Arrangements

33. The statutory guidance for service concession arrangements will not impact the accounting treatment of Scottish Government support for such arrangements. This forms part of the General Revenue Grant. As such there is no requirement to apportion the grant and then to match the grant with the new elements of the expenditure and the equivalent service lines.

Debt restructuring

34. Service concession arrangements may include clauses that transfer a proportion of any savings arising from a restructuring of the operator’s debt to the local authority. The revised accounting arrangements will require any debt restructuring to be accounted for as a renegotiation of the lease. The existing liability shall not be altered but the revised financing terms reflected as a reprofiling of repayments and finance charge.

35. Where the authority receives a share of the benefit from the refinancing as a lump sum this will either be included in deferred income and released to the income and expenditure account over the life of the arrangement if the gain is conditional on the continuation of the arrangement, or as an immediate gain in finance income if unconditional on the continuation of the arrangement. Where the refinancing gain is accounted as deferred income and released to the income and expenditure account over the life of the arrangement no statutory adjustment is required. The statutory charge for the repayment of the outstanding liability for the service concession arrangement will continue to be charged in accordance with the statutory guidance.

36. However, where the authority recognises an immediate gain, a statutory adjustment is required. Statutory guidance permits premiums arising from the

refinancing of borrowing to be deferred and charged to the General Fund over time (Finance circular 4 of 2007). The statutory adjustment to be made where the authority recognises an immediate gain from a restructuring of the operator's debt is to credit an equivalent sum to the Financial Instruments Adjustment Account and charge the General Fund. This transfer is to be reported as part of the Movement in Reserves Statement.

37. Where a local authority has no outstanding statutory premium balances in the Financial Instruments Adjustment Account this requirement will not apply. If the value of the outstanding statutory premiums held is less than the refinancing gain, the transfer is restricted to the value of the outstanding premiums. The refinancing gain is to be released back to the General Fund over the life of the contract.

38. The statutory requirement to transfer the refinancing gain to the Financial Instruments Adjustment Account is prospective only. There is no requirement to amend or restate the General Fund balance to reflect any refinancing gains which have occurred before 1 April 2010.

Use of Capital Receipts

39. For the borrowing of money, capital receipts may be used to voluntarily write down loans fund advances once made. The use of capital receipts in this way allows previous decisions to borrow to be changed and substituted with capital receipts.

40. This reduces the statutory charge to the General fund for subsequent years. In principle, Scottish Ministers have no difficulty in allowing capital receipts to be applied to service concession arrangements to reduce the statutory charge for future years. Unlike the borrowing of money, the debt is associated directly with the service concession assets. The difficulty therefore is how substituting capital receipts to reduce the long-term liability can be achieved when the actual liability will remain. It also complicates the statutory arrangements for the repayment of the debt as set out in this guidance.

41. The statutory guidance does not permit capital receipts to be used to reduce or meet the repayment of the outstanding liability associated with a service concession arrangement.

Scottish Government support for Service Concession Arrangements

42. The statutory guidance for service concession arrangements will not impact the accounting treatment of Scottish Government support for such arrangements. This forms part of the General Revenue Grant. As such there is no requirement to apportion the grant and then to match the grant with the new elements of the expenditure and the equivalent service lines.

STATUTORY CHARGES FOR LEASES

43. Like service concession arrangements, leases are considered to be credit arrangements and not the borrowing of money. The statutory guidance also sets out the statutory arrangements for leases.

PART 2

ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS, LEASES AND SIMILAR ARRANGEMENTS

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. Act 1994 (c.39), regional transport partnerships and other bodies as set out in section 106 of the Local Government (Scotland) Act 1973.

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

3. ***Proper accounting practices*** are those practices as set out by section 12 of the Local Government in Scotland Act 2003

4. A ***service concession arrangement***, such as a Public Private Partnership (*PPP)*, *or* a Private Finance Initiative *(PFI)* or similar contract, typically involves a private sector entity (the operator) constructing or upgrading infrastructure used in the provision of a public service and operating and maintaining that infrastructure for a specified period of time. These arrangements involve the operator undertaking an obligation to provide infrastructure (and related services) that are used to provide services to the public. The operator is paid for its services over the period of the arrangement.

5. The Accounting Code applies IFRS 16 from 1 April 2024 and defines a ***lease*** as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The Accounting Code amends this definition to remove 'in exchange for consideration'.

6. ***Infrastructure*** refers to the property plant or equipment provided by the operator.

7. A ***relevant service concession arrangement or lease*** includes a PPP, PFI or similar contract and is one which requires the local authority to recognise the infrastructure associated with the service concession arrangement, lease, or similar contract as an asset of the local authority in accordance with proper accounting practice.

8. A ***financial year*** is one that commences on 1 April and ends on 31 March.

9. The annual ***unitary payment*** is the payment due to the operator for any financial year.

10. A ***capital receipt*** is the proceeds from the sale of assets of the local authority.

11. A ***long-term liability*** associated with a relevant service concession arrangement is the related liability, or debt, recognised by the local authority when the local authority recognises the service concession arrangement asset as property plant

and equipment of the local authority. The repayment of this liability by the General Fund is set out in this guidance.

APPLICATION

12. This statutory guidance applies to all relevant service concession arrangements, leases and similar arrangements and applies from the financial year 2024-25.

13. Local authorities have the option to disapply the statutory adjustments and recognise service concession arrangements, leases and similar arrangements in accordance with the Accounting Code.

14. An asset the subject of a relevant service concession arrangement, lease or similar arrangement continues to be subject to this guidance at the expiration of the service concession arrangement or lease contract.

15. A liability the subject of a relevant service concession arrangement, lease or similar arrangement continues to be subject to this guidance at the expiration of the service concession arrangement or lease contract.

Section 1: Adoption of the Accounting Code requirements for service concession arrangements, leases and similar arrangements

16. A local authority may choose to adopt the Accounting Code requirements in full without any statutory adjustments for service concession arrangements, leases and similar arrangements. This accounting treatment can be retrospectively applied such that all prior accounting entries are reversed and replaced with the requirements of the Accounting Code. This approach cannot be applied selectively. If this approach is adopted, all statutory charges will be reversed, such that only the accounting entries required by the Accounting Code will remain. The balance of the Capital Adjustment Account for service concession arrangements, leases and similar arrangements will be nil.

17. The Accounting Code requirements for the valuation, revaluation, impairment and depreciation of the asset and lease liability of a service concession or other lease arrangement will be applied in full.

18. The cumulative financial effect of all the prior years' reversals will be a statutory adjustment to the General Fund, reported through the Movement in Reserves Statement in the financial year of adoption.

19. To ensure consistency, if this approach is adopted, it must be applied to all service concession arrangements, leases and similar arrangements with the exception of such arrangements where the contract will expire within five years.

20. Fixed assets, service concession arrangements and leased assets will continue to form part of the capital framework and be included in prudential indicators. Depreciation based on an asset's historical cost, amortisation and any impairment or revaluation charged to Surplus or Deficit on the Provision of Services (SDPS) will therefore be a charge to the General Fund for relevant fixed and leased assets.

21. In line with the Accounting Code, revaluation gains will be recognised in the revaluation reserve, unless the increase is reversing a previous impairment loss charged to surplus or deficit on the provision of services on the same asset (see Section 4.7 of the Code) or reversing a previous revaluation decrease charged to surplus or deficit on the provision of services on the same asset. Revaluation losses will be recognised in the revaluation reserve up to the credit balance existing in respect of the asset and thereafter in surplus or deficit on the provision of services.

22. IAS 16 Property, Plant and Equipment requires a revaluation surplus adjustment, being the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's historical cost. This adjustment is made between the General Fund and the Revaluation Reserve.

23. Once this approach is taken it may not then be reversed. This means that where a local authority has reverted in full to the Accounting Code and reversed all statutory adjustments, reflected in the audited statutory Annual Accounts of a local authority, that authority may not choose to re-apply Local Government Finance Circular 10/2022 (as amended by Finance Circular xx/2023) in subsequent years.

24. The statutory adjustment is made at 1 April in the year the revised arrangements are applied. This option can be exercised in any financial year from 1

April 2023 and has retrospective application. Being a cumulative statutory adjustment there is no prior year restatement of statutory adjustments in Annual Accounts.

Application of Capital Receipts

25. Capital receipts may not be used to reduce the long-term liability, repay the long-term liability, or fund the statutory adjustment required to reverse all statutory charges.

Disclosures

26. Where a local authority chooses to reverse all statutory charges and apply the Accounting Code in full, an explanation should be disclosed in the relevant note to the Annual Accounts to explain the basis for the accounting policy change and the impact on the balances reported within the Annual accounts. These adjustments should be reported through the Movement in Reserves Statement.

27. This section sets out the statutory accounting and statutory charges for service concession arrangements, leases and similar arrangements.

STATUTORY CHARGES FOR SERVICE CONCESSION ARRANGEMENTS

28. Depreciation costs are to be charged to the Income and Expenditure account of a local authority in accordance with proper accounting practices. Depreciation costs are to be excluded when determining the movement on the General Fund balance for the financial year.

29. Impairment costs are to be charged to the Income and Expenditure account of a local authority in accordance with proper accounting practices. Impairment costs are to be excluded when determining the movement on the General Fund balance for the financial year.

30. Unitary payments to the operator for a relevant service concession arrangement are to be charged to the Income and Expenditure Account in accordance with proper accounting practice.

31. In any financial year two statutory charges may need to be made – one for the repayment of the debt (the long-term liability) and one to fund any capital expenditure associated with the relevant service concession asset. The statutory charge to fund capital expenditure should be treated as a capital expenditure charge to the General Fund.

Statutory Charge for the Repayment of Debt

32. With the exception of those service concession arrangements to which the temporary statutory flexibility was applied in either 2022-23 or 2023-24, from 1 April 2024 an annual '**statutory charge for the repayment of debt'** shall be made to the General Fund for all existing and new service concession arrangements. The statutory charge must reflect the principal repayments and must be charged to the General Fund over the term of the contract, after deducting those items described in paragraphs 34(a) to 34(c) below.

33. For service concession arrangements entered into prior to 1 April 2022, where the temporary statutory flexibility to permit the principal repayments to be accounted for over the asset life rather than contract term was exercised in either 2022-23 or 2023-24, the annual 'statutory charge for the repayment of debt' to the General Fund may continue to be calculated on the basis of the asset life, as set out in Finance Circular 10/2022.

34. When determining the movement on the General Fund balance for a service concession arrangement in the financial year the 'statutory charge for the repayment of debt' shall be a sum equal to the unitary payment in respect of the financial year after deducting:

a) those amounts which have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practices, adjusted as necessary for paragraph 35 below; and

b) actual lifecycle replacement costs capitalised in year. The value deducted for lifecycle replacement costs shall not exceed the planned lifecycle replacement costs as set out in the contract. The value to be deducted for works undertaken earlier than planned is equal to the planned value as set out in the contract, ignoring the planning year. Where the capital expenditure exceeds the balance of the unitary payment after deducting those costs identified in a) above the statutory payment for the repayment of debt shall be zero; or

c) prepayments posted to the balance sheet for future lifecycle replacement costs.

35. Where a local authority has adopted the prepayment option for lifecycle replacement costs and the work is either not undertaken or the costs were less than planned an adjustment is required. A sum equal to the prepayment written off to the Comprehensive Income and Expenditure Statement is to be disregarded when determining the value of 34(a) above. Where the prepayment relates to lifecycle replacement costs which may not be capitalised, any charge to the Comprehensive Income and Expenditure Statement for lifecycle replacement costs shall be disregarded when determining the value of 34(a) above.

36. Where the capital expenditure exceeds the unitary payment after deducting those costs as identified in 34(a) above, the excess of actual lifecycle costs will be charged to the unitary payment in the subsequent financial year. For the purposes of paragraph 34(b) above, those excess costs, when met from the unitary charge, are not to be deducted as actual lifecycle replacement costs capitalised in year.

37. The statutory charges made for the repayment of the principal element of the debt represent the repayment of the long-term liability associated with a relevant service concession arrangement. The total charge across all years to the General Fund for any relevant service concession arrangement should be equal to the long-term liability recognised for the service concession arrangement infrastructure. Adequate records must be kept in order to demonstrate that the General Fund has been correctly charged.

38. Prepayments posted to the balance sheet for future lifecycle replacement costs may not be a charge to the General Fund when recognised. Authorities may transfer sums from the General Fund to the Renewals and Repair fund should they wish to identify and set aside funds to finance the capital expenditure when it occurs.

Statutory Charge for Lifecycle Replacements - Capital Expenditure

39. When determining the movement on the General Fund balance for the financial year, a statutory charge ‘Capital expenditure charged to the General Fund’ shall be made for a relevant service concession arrangement. This statutory charge to the General Fund, made via the Movement in Reserves Statement, in any financial year shall be a sum equal to:

a) the actual lifecycle replacement expenditure capitalised in year in accordance with proper accounting practice where this is less than the planned replacement cost; or
b) the actual lifecycle replacement cost where this is equal to the planned replacement cost; or
c) the planned replacement cost where the actual expenditure exceeds the planned replacement cost, or

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.

40. The planned replacement cost in paragraph 38 refers to the lifecycle replacement expenditure recognised in the relevant service concession arrangement. In determining the statutory charge to be made the timing of the planned cost identified in the relevant service concession arrangement shall be disregarded. For example, if the replacement is planned to occur in 2012-13 but is incurred in 2011-12 the cost shall still be treated as planned for the purposes of determining the statutory charge.

41. Adequate records must be kept in order to demonstrate that the General Fund has been correctly charged with the capitalised lifecycle replacement costs. Returns to the Scottish Government for capital expenditure shall include capital expenditure recognised as incurred on relevant service concession arrangement assets. The financing of that expenditure will be the revenue contribution to capital.

Debt Restructuring – Movement of The General Fund Balance

42. Service concession arrangements may include clauses that transfer a proportion of the savings arising from the restructuring of the operator's debt to the local authority. Where a local authority receives a share of the benefit from the refinancing as a lump sum and recognises this as an immediate gain in finance income in the income and expenditure account a statutory adjustment must be made. The Financial Instruments Adjustment Account shall be credited, and the General Fund debited, with an equivalent amount as the refinancing gain recognised. This transfer is to be reported as part of the Movements in Reserves Statement.

43. Where the value of statutory premiums held in the Financial Instruments Adjustment Account is less than the refinancing gain recognised in the income and expenditure the credit to the Financial Instruments Adjustment Account is reduced.

44. The credit, and associated debit, shall be equal to the outstanding value for statutory premiums forming part of the Financial Instruments Adjustment Account.

45. Where the value of statutory premiums held is zero paragraph 41 does not apply.

46. The requirement in paragraph 41 only applies to refinancing gains arising in the financial year commencing 1 April 2010, and future financial years.

47. The refinancing gain shall be released back to the General Fund over the contract period. This transfer is to be reported as part of the Movements in Reserves Statement.

Donated Assets

48. 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.

Application of Capital Receipts

49. Capital receipts may not be used to reduce the long-term liability, repay the long-term liability, or fund the statutory charge associated with a service concession arrangement.

STATUTORY CHARGE FOR THE REPAYMENT OF LEASES

50. Leases are a method of financing capital expenditure. As with service concession arrangements, they do not represent the borrowing of money but rather a credit arrangement. Where assets are acquired through a lease, and where the expenditure may be properly capitalised in accordance with proper accounting practices, the following statutory guidance applies:

51. Depreciation costs are to be charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practices. Depreciation costs are then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

52. Impairment costs are to be charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practices. Impairment costs are then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

53. Revaluation gains or losses are initially charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practices and then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement

54. On a revalued asset, a further adjustment is required: a transfer between the revaluation reserve and capital adjustment account shall be carried out that represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

55. When determining the movement on the General Fund balance for the financial year a '**statutory charge for the repayment of debt'** shall be made for a lease. This statutory charge is equal to the annual lease charge after deducting those amounts which have been charged to the Comprehensive Income and Expenditure Statement for interest in accordance with proper accounting practices.

Application of Capital Receipts

56. Capital receipts may not be used to reduce the long-term liability, repay the long-term liability, or fund the statutory charge associated with a lease.

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