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Local Government Finance Circular No 7/2018
(Replaces Local Government Finance Circular No 4/2007)

By email
To: Directors of Finance of Scottish local authorities
Audit Scotland

Our ref: A19627096
7 November 2018

Dear Director of Finance,

ACCOUNTING FOR FINANCIAL INSTRUMENTS

A local authority may make a statutory adjustment for three items (a) premiums and discounts associated with the refinancing of loans; (b) loans to third parties granted at less than market interest rates; and (c) borrowing where the loan is a stepped interest rate loan. Items (b) and (c) have a restricted application.

A review has been undertaken to check that the statutory adjustments remain relevant. I can advise that no changes are being proposed to the statutory adjustment available to local authorities.

The guidance has been re-drafted to bring it into line with the *CIPFA-LASAAC Code of Practice on Local Authority Accounting*. Other changes include more detail on the application of capital receipts to fund premiums, and guidance on how the statutory adjustments are to be reported in the Annual Accounts.

This guidance 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,

Hazel Black

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

ACCOUNTING FOR FINANCIAL INSTRUMENTS

Scottish Government

Contents

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. The Code of Practice on Local Authority Accounting in the UK (the Accounting Code) requires local authorities to account for financial instruments in accordance with a number of standards except where interpretations or adaptations to fit the public sector are detailed in the Accounting Code.

2. This statutory guidance allows a local authority to make a statutory adjustment for three items (a) premiums and discounts associated with the refinancing of loans; (b) loans to third parties granted at less than market interest rates; and (c) borrowing where the loan is a stepped interest rate loan. The statutory adjustment for items (b) and (c) is only available for those loans which were recorded on a local authority's balance sheet at 31 March 2007. As such it is time limited and will expire when these specific loans are repaid or changed.

Premiums or Discounts associated with the refinancing of loans

3. Authorities often negotiate with their lenders to cancel existing debt and replace it with new debt on different terms. For example, an authority with high interest fixed rate debt may decide to cancel its exposure to the high rate debt and replace it with lower rate debt. On cancellation, a fee (premium) may be payable. Some repurchasing of debt gives rise to a gain (discount). The 2006 Accounting Code (or Statement Of Recommended Practice (SORP) as it was then known) included an exception to the requirement for immediate recognition of a gain or loss on the repurchase of debt.

4. The Accounting Code applying to periods after 1 April 2007 introduced new tests. If the replacement debt has substantially different terms from the old debt, the refinancing is accounted for as the extinguishment of the old debt and its replacement as new debt. The gain or loss on the extinguishment of the old debt is required to be recognised immediately in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account.

5. All existing premiums and discounts incurred up to 31 March 2007 were required to be derecognised unless they would have been required to be accounted for as a loan modification. Any adjustment required was made as an adjustment to the opening General Fund / Housing Revenue Account balance.

6. Premiums or discounts incurred after 1 April 2007 are required to be charged to the Comprehensive Income and Expenditure Account in full in the financial year they are incurred if they do not meet the criteria for a loan modification.

Premiums and Discounts at 31 March 2007

7. The 2007 Accounting Code required a review of all existing premiums and discounts carried on the closing 2006/07 balance sheet. Those that could not be positively attributed to individual loan debts on the balance sheet were required to be written off. Those that could be positively attributed to loan debt carried on the 2006/07 closing balance sheet were applied to adjust the carrying amount of such loans.

8. In response to representation from local government that the review would be time consuming with no real benefit arising, the statutory guidance issued in 2007 permitted local authorities to forgo the required review and treat all premiums and discounts carried on the closing 2006-07 balance sheet as not being capable of being positively attributed. This led to all premiums and discounts being written off by adjusting the General Fund / Housing Revenue Account Balances. The statutory guidance permits the value of this write-off to be held in a statutory adjustment account, the Financial Instruments Adjustment Account (FIAA), and for a local authority to charge this deferred cost to the General Fund / HRA in accordance with existing schedules based on the 2006 Accounting Code.

9. The statutory guidance requires that a schedule of all premiums and discounts treated as extinguished is maintained. This schedule sets out the annual charge to the General Fund (or Housing Revenue Account (HRA)) from 2007-08 until the final year when the premium or discount will be at zero.

Premiums and Discounts after 1 April 2007

10. From 1 April 2007 premiums and discounts associated with modified loans are to be accounted for in accordance with the Accounting Code. The statutory guidance permits all premiums and discounts arising from an extinguishment of a debt to be deferred and charged to the General Fund over a period greater than one year. The guidance covers all premiums and discounts arising from the early repayment of debt. There is no requirement to refinance a debt repaid early.

11. Local authorities are permitted to spread the revenue charge for premiums or discounts over a period longer than one year: -

> 11.1 Where a local authority has refinanced a loan and the replacement loan is a fixed interest rate loan the premium may be charged to the General Fund over the life of the replacement loan.
>
> 11.2 Where the replacement loan is a variable rate loan, or has an option or condition which allows the lender to vary the interest rate, the charge to the General Fund shall be over the life of the replacement loan up to a maximum of 20 years.

11.3 Where the loan is repaid early without any refinancing the charge to revenue shall be treated as an overhanging premium.

12. A local authority is required to maintain records which detail loans with an associated premium or discount, together with a schedule of the annual charge to be made each financial year to the General Fund.

Overhanging premiums

13. Overhanging premiums arise where the replacement loan which determined the period over which the premium was amortised to revenue has itself been repaid early. This leaves the premium outstanding without an associated loan.

14. All overhanging premiums and discounts recognised by a local authority as at 31 March 2007 may continue to be charged to the General Fund / HRA in accordance with schedules compiled and held by that local authority.

15. Premiums and discounts recognised at 31 March 2007, which subsequently become overhanging premiums or discounts, may continue to be written-off in accordance with the schedules compiled and held by each local authority.

16. Overhanging premiums which arise from the extinguishment of debt after 1 April 2007 are required to be charged to the General Fund in a way which matches the annual saving gained from undertaking the refinancing, subject to this not requiring the write-off period to exceed 20 years. For example: A local authority replaces £20m of loans gaining an interest rate reduction of 1% which equates to an annual expenditure saving of say £200,000. The loan being replaced has an associated outstanding premium of £1.1m which becomes an overhanging premium. The formula to be applied to determine the period of write-off for the overhanging premium is:
Premium divided by annual saving = number of years
For the example given this will equate to 5.5 years. Local authorities may round up to the nearest whole year. In the example given the annual write-off to the General Fund will be £183,333. Where the calculation indicates the number of years for the write-off period exceeds 20 years the statutory guidance requires the premium to be written off in 20 equal instalments.

17. Once the overhanging premium is scheduled for an annual charge to the General Fund the local authority is not required to consider the overhanging premium again should any further refinancing be undertaken.

18. Nothing in the guidance prevents a local authority from writing down premiums to the General Fund / HRA more quickly than set out in the guidance.

19. Local authorities should ensure they maintain detailed records for any overhanging premiums which arise after 1 April 2007 and their annual charge to the General Fund from the initial year to the final year.

Premiums and Discounts - the Annual Charge

20. The statutory guidance details how the annual charge to the General Fund should be calculated for premiums treated as extinguished. As premiums represent interest the amount of premium to be charged to revenue should be calculated pro-rata to the interest expenditure profile of the replacement loan/s. So for EIP or maturity loans this equates to a straight line amortisation. For annuity loans the premium will be amortised in line with the expected interest profile. For clarity the interest profile to be used is the expected expenditure interest profile and not the actual cash profile.

21. Premiums associated with modified loans shall be charged to the Comprehensive Income and Expenditure Account in accordance with the Accounting Code. There is no statutory adjustment.

22. Discounts should be treated the same as premiums.

23. In any financial year a local authority may choose to charge to the General Fund a sum greater than the annual charge calculated in accordance with the statutory guidance. If a local authority chooses to charge more than the schedule value in any one year the schedule of annual charges is updated to record the revised schedule of annual charges.

Use of Capital Receipts to fund premiums

24. When premiums are deferred they are transferred to the FIAA and this transfer is a statutory adjustment. These deferred premiums are recharged back to the General Fund/ HRA in accordance with the statutory guidance. Capital receipts may fund the cost of premiums, either as they are incurred, or as they are recharged back to the General Fund/ HRA. The application of capital receipts does not eliminate the need to make the annual recharge for deferred premiums (the statutory adjustment). Capital receipts used to fund annual recharges are treated as a movement in statutory usable reserves (CR General Fund/ HRA DR Capital Receipts) not a statutory adjustment. Capital receipts are not transferred to the FIAA.

25. The Accounting Code does not currently identify a line for transfers between statutory usable reserves in the Movement in Reserves Statement but local authorities in Scotland already use a separate line to identify such transfers. This matter was raised with CIPFA-LASAAC and we expect the Accounting Code from 2019-20 to formally recognise the position for Scotland. The guidance formally recognises a statutory requirement for this additional line to separate out statutory adjustments from movements in usable reserves.

26. The use of capital receipts is regulated by statute / statutory guidance. To ensure transparency that their use is in accordance with statute / statutory guidance a local authority is required to present, either in the Movement in Reserves Statement, or in the notes, an analysis of the transfers made between capital receipts/Capital Fund and the General Fund /HRA.

27. Where capital receipts are used to fund all or part of the premium incurred when a loan is extinguished, the cost of the premium remains a cost in the Comprehensive Income and Expenditure Statement. The application of capital receipts to fund that premium is reported as a movement in statutory usable reserves in the Movement in Reserves Statement. There is no statutory adjustment.

28. Capital receipts used to fund the annual charge to the General Fund/ HRA requires two sets of transactions. The first transaction is to charge the General Fund/HRA with the value of the premiums due to be recharged as recorded in the schedule held. This is a statutory adjustment and is reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The second transaction records the use of capital receipts to fund that annual charge. This transaction is not a statutory adjustment and is to be reported as a movement in statutory usable reserves in the Movement in Reserves Statement.

29. Local authorities may also make additional recharges of the deferred premiums and use capital receipts to fund that additional recharge. As with the annual charge this requires two sets of transactions. The first transaction is to charge the General Fund/HRA with the value of the additional premiums to be recharged. This is a statutory adjustment and is reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The second transaction records the use of the capital receipts to fund that additional recharge. This transaction is not a statutory adjustment and is to be reported as a movement in statutory usable reserves in the Movement in Reserves Statement.

Soft Loans advanced by a local authority

30. The Accounting Code requires soft loans to be initially measured at fair value. The sum by which the amount lent exceeds the fair value of the loan is charged to Surplus or Deficit on the Provision of Services as grant expenditure.

31. The requirement to measure soft loans at fair value has been required by the Accounting Code since 1 April 2007. Where this change resulted in the General Fund balance on the re-stated opening 2007-08 balance sheet being less than the General Fund balance on the closing 2006-07 balance sheet a statutory adjustment was permitted. A sum equal to the reduction attributable to restating soft loans could be transferred to the Financial Instruments Adjustment Account (FIAA).

32. The statutory adjustment only applies to those soft loans that were on a local authority's balance sheet at 31 March 2007. For soft loans advanced after 1 April 2007 the Accounting Code applies without any statutory adjustment.

33. Any modification or extension of a soft loan held at 31 March 2007 is required to be treated as if it were a new loan advanced and the statutory adjustment is no longer available, i.e. the Accounting Code applies without any adjustment. Any balance on the FIAA for that loan is to be transferred to the General Fund / HRA. This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

34. The amount to be credited to the General Fund / HRA in each financial year is equal to the contractual interest. The difference between the interest income credited applying the Accounting Code and the contractual interest is a statutory adjustment to the FIAA. This shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

35. All, or part of, the amount held in the FIAA for soft loans may be transferred to the General Fund/ HRA at any time. This shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

Borrowing where the loan is a stepped interest rate loan

36. The requirement to measure these loans at fair value has been required by the Accounting Code since 1 April 2007. Where this change resulted in the General Fund balance on the re-stated opening 2007-08 balance sheet being less than the General Fund balance on the closing 2006-07 balance sheet a statutory adjustment was permitted. A sum equal to the reduction attributable to restating stepped interest rate loans could be transferred to the Financial Instruments Adjustment Account (FIAA).

37. The statutory adjustment only applies to those stepped interest rate loans that were on a local authority's balance sheet at 31 March 2007. No statutory adjustment is available for stepped interest rate loans taken out after 1 April 2007.

38. Any modification or extension of a stepped interest rate loan held at 31 March 2007 is required to be treated as if it were a new loan and the statutory adjustment is no longer available, i.e. the Accounting Code applies without any adjustment. Any balance on the FIAA for that loan is to be immediately transferred to the General Fund. This transfer shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

39. The amount to be credited to the General Fund / HRA in each financial year is equal to the contractual interest. The difference between the interest income credited applying the Accounting Code and the contractual interest is a statutory adjustment. This statutory adjustment is to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

40. All, or part of the amount held in the FIAA for any stepped interest rate loan may be transferred to the General Fund/ HRA at any time. This is a statutory adjustment and shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement.

Annual Accounts - Statutory reporting requirements

41. The statutory guidance allows a statutory adjustment to be made for three items (a) premiums and discounts associated with the refinancing of loans; (b) loans to third parties granted at less than market interest rates; and (c) borrowing where the loan is a stepped interest rate loan.

42. The Accounting Code requires the disclosure of the statutory adjustments to be made in the Movement in Reserves Statement as part of the section “adjustments between accounting basis and funding basis under statutory provisions”. The Accounting Code requires an analysis of the transactions in this section, either within the Statement itself or in a note. The statutory guidance sets out the disclosure requirements for each statutory adjustment made in accordance with the guidance. It requires each statutory adjustment to be separately identified in the analysis and a total value provided for all the adjustments made and transferred to the FIAA.

43. The analysis of statutory adjustments should not include a statutory adjustment where the amount of the adjustment made for any of the items is zero in the two financial years covered by the Movement in Reserves Statement. However, amounts may not be netted to reach a zero value e.g. premiums transferred from the General Fund to the FIAA are to be analysed separately from the annual charge made to the General Fund / HRA i.e. they may not be netted off.

44. Capital receipts used to fund premiums is not a statutory adjustment and may not be included in the analysis of statutory adjustments in the Annual Accounts. The use of capital receipts as permitted by the statutory guidance is to be disclosed separately as part of the analysis of the transfers between usable reserves.

45. The disclosure for the FIAA in the Annual Accounts is to include the individual opening and closing balances for each of the three items (a) premiums and discounts associated with the refinancing of loans; (b) loans to third parties granted at less than market interest rates; and (c) borrowing where the loan is a stepped interest rate loan. No disclosure is to be made where a balance for any item is zero.

Scottish Government
Local Government and Analytical Services Division
7 November 2018

[PART 2]

ACCOUNTING FOR FINANCIAL INSTRUMENTS

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). It includes 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. It includes the Housing Revenue Account (HRA).

Housing Revenue Account or HRA means the account required to be maintained by 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.

Annual Charge – the amount of statutory premium or statutory discount which is to be charged or credited to the General Fund or HRA in each financial year from the initial year to the final year.

Annual Saving – the amount of interest saving identified with any refinancing.

Initial Year – the year the premium or discount is transferred to the Financial Instruments Adjustment Account.

Final year – means the financial year when the statutory premium or statutory discount outstanding equals zero.

The ***Financial Instruments Adjustment Account*** is an unusable reserve which holds the statutory adjustments made by a local authority applying this guidance.

Overhanging premium or discount – means any statutory premium or statutory discount which can no longer be directly associated with a current loan made to the local authority.

Replacement loan – means any loan of money to the local authority which the local authority has taken out in order to finance the repayment of any loan repaid early.

Schedule of annual charges – means a schedule compiled by a local authority to record the annual charge to the General Fund or HRA for each statutory premium or statutory discount.

SORP 2006-07 – means the CIPFA-LASAAC Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice applying to the financial year 2006-2007.

Statutory premium *or* ***statutory discount*** – means those premiums or discounts which arise on the early repayment of debt and which are required by the Accounting Code to be immediately recognised in Surplus or Deficit on the Provision of Services.

Stepped interest rate loan – means a loan taken out by a local authority at an interest rate which increases in one or more increments during the period for which the loan agreement subsists.

APPLICATION

1. This statutory guidance applies from the financial year commencing 1 April 2018. It applies to all local authorities.

STATUTORY ADJUSTMENT ACCOUNT

2. Each local authority that chooses to apply, or is required to apply, the adjustments set out in this guidance shall establish and maintain a Financial Instruments Adjustment Account (FIAA).

STATUTORY PREMIUMS AND STATUTORY DISCOUNTS

3. A local authority may choose to apply this guidance to statutory premiums. Once a premium or discount has been transferred to the FIAA this guidance must be applied.

4. Statutory discounts must be transferred to the FIAA but only up to an amount which will reduce the value held in that account for statutory premiums to zero.

Premiums and discounts at 31 March 2007

5. The schedule of annual charges from the FIAA to the General Fund for statutory premiums and statutory discounts prior to 1 April 2007 must be maintained.

6. The annual charge from the FIAA to the General Fund will be the amount for each financial year as set out in the schedule maintained for those statutory premiums and discounts.

7. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund for any statutory premium with a view to shorten the write-off period.

Premiums and discounts from 1 April 2007

8. Statutory premiums incurred in any financial year may be transferred from the General Fund (CR) to the FIAA (DR).

9. Statutory discounts must be transferred from the General Fund (DR) to the FIAA (CR) but only up to an amount which will reduce the value held in that account for statutory premiums to zero.

Recharge period

10. The recharge period for statutory premiums or statutory discounts transferred to the FIAA where the replacement loan is a fixed rate loan is the **life of the replacement loan**. A local authority may choose a shorter period than that permitted by this guidance.

11. The recharge period for statutory premiums or statutory discounts transferred to the FIAA where the replacement loan is a variable rate loan, or has a term which permits the lender to vary the interest rate, is the life of the replacement loan up to a maximum of **20 years**. A local authority may choose a shorter period than that permitted by this guidance.

12. The recharge period for statutory premiums or statutory discounts transferred to the FIAA where there is no replacement loan is to treated as an overhanging premium and charged to the General Fund over a period no greater than **5 years**. A local authority may choose a shorter period than that permitted by this guidance.

Annual charge

13. Where the statutory premium or statutory discount is charged to the General Fund over the life of the replacement loan/s, the annual charge is pro rata to the expected interest expenditure profile of the replacement loan/s. The interest profile to be used is the expected interest expenditure profile not the cash profile.

14. Where the statutory premium or statutory discount is being charged to the General Fund subject to a maximum of 20 years the annual charge will be equal instalments of the premium or discount.

15. Where there is no replacement loan and the statutory premium or statutory discount is being charged to the General Fund within 5 years the annual charge will be equal instalments of the premium or discount.

16. For overhanging premiums and discounts which arise from the refinancing of debt after 1 April 2007 the annual charge will match the annual saving identified by the refinancing, subject to this not requiring the write-off period to exceed 20 years. If the period exceeds 20 years the annual charge is equal instalments.

17. For overhanging statutory premiums or statutory discounts which arise where that debt is not refinanced the annual charge is equal instalments.

Schedule of annual charges

18. Local authorities must maintain a schedule that shows which statutory premiums or statutory discounts are associated with which replacement loan/s and a schedule of the annual charge to the General Fund from the initial year to the final year.

19. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund with a view to shorten the write-off period.

Overhanging premiums and discounts in the FIAA

20. Overhanging premiums and discounts identified at 31 March 2007 may continue to be charged to the General Fund in accordance with the local authority's schedule of annual charges.

21. Statutory premiums and statutory discounts identified at 31 March 2007 which subsequently become overhanging premiums or discounts through further refinancing, may continue to be charged to the General Fund in accordance with the schedule of annual charges.

22. Overhanging statutory premiums or statutory discounts which arise from the refinancing of debt after 1 April 2007 are to be charged to the General Fund in a way which matches the annual saving identified by the refinancing, subject to this not requiring the write-off period to exceed 20 years. The formula to be applied to determine the write-off period for the overhanging statutory premium is:

> Overhanging statutory premium (or discount) divided by the Annual Saving = number of years
>
> Where the calculation indicates the write-off period will exceed 20 years the premium or discount must be written off **within 20 years**.
>
> Local authorities may choose to apply a shorter write-off period than that permitted by this guidance.

23. Once the overhanging statutory premium or statutory discount is scheduled for an annual charge to the General Fund the local authority is not required to consider the overhanging statutory premium or discount again should any further refinancing be undertaken.

24. Overhanging statutory premiums or statutory discounts which arise where that debt is not refinanced are required to be charged to revenue **within 5 years**.

25. A local authority must maintain a schedule of overhanging statutory premiums or statutory discounts which arise after 1 April 2007 detailing their annual charge to the General Fund from the initial year to the final year.

26. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund with a view to shorten the write-off period.

Use of capital receipts to fund premiums

27. Capital receipts may fund the cost of premiums, either as they are incurred, or for those deferred in the FIAA, as they are recharged back to the General Fund. The application of capital receipts does not eliminate the need to make the annual charge for deferred premiums (a statutory adjustment). Capital receipts used to fund annual charges are treated as a movement in statutory usable reserves (CR General Fund DR Capital Receipts). Capital receipts may not be transferred to the FIAA.

28. The transfer from capital receipts to the General Fund to fund the cost of premiums is to be reported in the Movement in Reserves Statement. This shall be reported in a section “Transfer to/ (from) other statutory usable reserves”. This shall be after “Increase or Decrease in year” and before “Balance as at the end of the current reporting period”.

29. A local authority is required to present, either in the Movement in Reserves Statement, or in the notes, an analysis of the transfers made between capital receipts and the General Fund.

30. Where a local authority chooses to use capital receipts the accounting treatment is as follows:

> 30.1 Where a local authority chooses to use capital receipts to fund all, or part, of the cost of a premium incurred at the point the loan is extinguished the value of the premium to be funded from capital receipts is not transferred to the FIAA. The transfer of capital receipts to fund this cost is to be reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement (CR General Fund DR Capital Receipts). There is no statutory adjustment made. Where only part of the cost of the premium incurred is funded from capital receipts an authority may still choose to defer the remaining value of the premium by transferring this to the FIAA. This transfer to the FIAA is a statutory adjustment and subject to this guidance.
>
> 30.2 Where capital receipts are used to fund the annual charge to the General Fund the annual charge must be transferred to the General Fund as a statutory adjustment. This transaction shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement (DR General Fund CR FIAA). The application of capital receipts to fund the annual charge is a separate transaction and is be reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement (DR Capital Receipts CR General Fund).
>
> 30.3 Capital receipts may be used to fund a reduction in the value of premiums held in the FIAA, i.e. to fund additional charges made to the General Fund / HRA over and above the annual charge. The amount of additional deferred premium a local authority wishes to write down must be charged to the General Fund as a statutory adjustment. This transaction shall be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement (DR General Fund CR FIAA). The application of capital receipts to fund the cost of the additional premiums

charged to the General Fund is reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement (DR Capital Receipts CR General Fund).

31. The amount of capital receipts transferred to the General Fund may not exceed the value of premiums charged to the General Fund in any financial year.

LOANS TO THIRD PARTIES AT LESS THAN COMMERCIAL INTEREST RATES (‘SOFT LOANS’)

32. This statutory guidance only applies to those soft loans which a local authority restated on the opening balance sheet for 2007-08 and where a sum equal to the reduction in the General Fund balance which resulted from that restatement was transferred to the FIAA.

33. The interest to be credited to the General Fund in any financial year is the contractual interest for any loan. The difference between the interest recognised in the Comprehensive Income and Expenditure Statement and the contractual interest is to be treated as a statutory adjustment and transferred to the FIAA.

34. Any modification or extension of a soft loan shall be treated as if it is a new loan advanced and all balances held in the FIAA for the original loan shall be transferred to the General Fund in the financial year the loan is modified or extended.

STEPPED INTEREST RATE LOANS

35. This statutory guidance only applies to those stepped interest rate loans which a local authority restated on the opening balance sheet for 2007-08 and where a sum equal to the reduction in the General Fund which resulted from that restatement was transferred to the FIAA.

36. The annual interest charge to the General Fund shall not exceed the sum that would have been chargeable if the SORP 2006-07 had applied.

37. A local authority is to keep a schedule reconciling the cumulative interest charged in accordance with the Accounting Code and the actual cumulative interest charged to the General Fund.

38. Any extension or modification to a stepped interest rate loan held by a local authority as at 31 March 2007 shall be treated as if it is a new loan advanced and the balance held in the FIAA for the original loan shall be transferred to the General Fund in the financial year the loan is modified or extended.

ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS

Statutory adjustments

39. 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 Accounting Code requires an analysis of

statutory adjustments either in the Movement in Reserves Statement or in a note. The analysis of the statutory adjustments made for financial instruments should clearly identify each statutory adjustment to ensure transparency. Local authorities may choose the descriptor for each statutory adjustment but it should reflect the transaction. Descriptors are suggested in this guidance but are not mandatory.

40. 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.

41. If a local authority chooses to defer a premium this is a statutory adjustment. The suggested descriptor is “Deferral of premium(s) from the refinancing of debt”.

42. If a local authority is required to defer a discount this is a statutory adjustment. It may be added to any deferred premiums. The suggested descriptor is “Deferred premium(s) and discount(s) from the refinancing of debt”. Where there is only a deferred discount the suggested descriptor is “Deferred discount(s) from the refinancing of debt”.

43. The annual charge, which includes any additional sums a local authority chooses to charge the General Fund / HRA is a statutory adjustment. The suggested descriptor is “Annual recharge of deferred premiums from the refinancing of debt”. Where the annual charge includes discounts this could be amended to “Annual recharge of deferred premiums and discounts from the refinancing of debt”

44. The interest adjustment for soft loans is a statutory adjustment. The suggested descriptor is “Adjustment for interest on loans to third parties at less than commercial interest rates”.

45. The interest adjustment for stepped interest rate loans is a statutory adjustment. The suggested descriptor is “Adjustment for interest on stepped interest rate loans”.

46. A total value of all the statutory adjustments made for financial instruments is to be provided as part of the analysis. This total must be equal to the movement in the FIAA for each financial year. The suggested descriptor for this total is “Total statutory adjustments for financial instruments”.

47. The disclosure for the FIAA in the Annual Accounts shall include the identification of the individual opening and closing balances for each of the three items (a) premiums and discounts associated with the refinancing of loans; (b) loans to third parties granted at less than market interest rates; and (c) borrowing where the loan is a stepped interest rate loan. This disclosure is only required where, in addition to (a), balances are also held for (b) and/ or (c). Where the balance on the FIAA relates only to deferred premiums and discounts this disclosure does not apply but the note which explains this account should be clear the FIAA holds premiums and discounts from the refinancing of debt which statutory guidance allows to be deferred, and which are recharged to revenue over a longer period than permitted by accounting standards.

Use of capital receipts

48. Capital receipts may not be transferred to the Financial Instruments Adjustment Account.

49. The use of capital receipts to fund the cost of premiums as permitted by this guidance is not a statutory adjustment. The application of capital receipts is to be reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement.

50. An analysis of the reason for each transfer from capital receipts to the General Fund shall be made either in the Movement in Reserves Statement itself or in the notes.

51. If a local authority chooses to use capital receipts to fund all or part of the annual charge, including any additional sums recharged the suggested descriptor for the analysis is “Use of capital receipts to fund deferred premiums”.

52. Where a local authority chooses to use capital receipts to fund a premium in the financial year it is incurred the suggested descriptor for the analysis is “Use of capital receipts to fund premiums incurred on refinancing”.

Scottish Government ***7 November 2018***
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