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## Local Government Finance Circular No 11/2022

By email

To: Directors of Finance of Scottish local authorities  
Audit Scotland

Our ref: A16145552  
30 November 2022

Dear Director of Finance,

### TEMPORARY STATUTORY ACCOUNTING FLEXIBILITY 2022-23 & 2023-24 ADDITIONAL CAPITAL GRANT

Local Government Finance Circular 3/2018 sets out the statutory accounting guidance for capital grants, contributions and donated assets.

As part of the Local Government pay deal, the Scottish Ministers agreed to permit a temporary flexibility to the current statutory accounting requirements for capital grants. This flexibility is only applicable to the additional capital grant of £120.60 million which was confirmed as part of the Local Government pay deal in a letter to Directors of Finance on 7 October 2022.

The accounting flexibility set out in this statutory guidance is a temporary adaptation to [Finance Circular 3/2018](#) for 2022-23 and 2023-24.

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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### Contents

#### 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. As part of the Local Government pay deal, the Scottish Ministers confirmed that an additional £120.60 million of capital grant would be made available to local authorities in Scotland in 2022-23 and 2023-24.
2. A range of accounting flexibilities, to enable local authorities to utilise the additional capital grant allocation, were also confirmed in a letter to COSLA from the Deputy First Minister on 5 October 2022. These accounting flexibilities allow revenue resources held for capital investment purposes to be replaced with capital grant, which may then be released to meet the pay increase to the Local Government workforce, as agreed on 2 September 2022.

### Finance Circular 3/2018 - Statutory Accounting

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

3. 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**

4. 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**

5. 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.

### **Temporary Amendment to Finance Circular 3/2018**

6. The statutory guidance provides a temporary exception to paragraphs 13, 14 and 16 of Part 2 of Finance Circular 3/2018 for the use of capital grant. This exception applies solely to the £120.60 million additional capital grant allocation agreed by the Scottish Ministers and advised in the letter of 7 October 2022 for both 2022-23 and 2023-24.

7. The flexibilities described in paragraphs 8 to 18 below are intended to enable local authorities to replace Capital Financed from Current Revenue (CFCR) or other discretionary revenue reserves with the additional capital grant in order to allow the release of such revenue reserves for use towards the pay award.

### **Use of Capital Grant to Fund Loans Fund Repayments**

8. The capital grant may be used to meet the principal element of loans fund repayments (but not any payment of interest on the loan) in line with the terms and conditions of the capital consent letter.

9. Where the capital grant is used to meet loans fund repayments the statutory adjustment to transfer the capital grant to the Capital Adjustment Account is not required.

10. Capital grant applied to the repayment of the principal of loans will not be transferred to the Capital Adjustment Account but will be held within the General Fund to meet the loan repayments.

11. Only capital grant applied to meet loan repayments may be retained within the General Fund.

12. 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 used to meet loan repayments will therefore 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).

### **Use of Capital Grant to Fund Capital Investment in Affordable Housing**

13. The capital grant may replace reserves currently held for capital investment in affordable housing in order to release an equivalent amount of earmarked reserves for use towards the pay award.

14. 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.

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

### **Use of Capital Grant to Fund Capital Investment in the Housing Capital Programme**

16. The capital grant may replace Housing Revenue Account (HRA) CFCR or other revenue reserves earmarked for use towards the Housing Capital Programme. This will facilitate / generate a surplus on the HRA which may be released to the General Fund for use towards the pay award.

17. 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.

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

### **Capital Grant Used for Other Capital Investment**

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

### **Disclosure of Statutory Adjustments**

20. 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  
10 November 2022

## [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

1. **Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c.39). It includes a regional transport partnership and other bodies as set out in section 106 of the Local Government (Scotland) Act 1973.
2. **General Fund** means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973. The Housing Revenue Account is a statutory account forming part of the General Fund.
3. **Financial year** is a year which commences 1 April and ends 31 March.
4. **Proper accounting practices** are as defined in section 12 of the Local Government in Scotland Act 2003.
5. A **capital grant and a capital contribution** is a grant or contribution recognised by an authority which has been used, or is to be used, to fund capital expenditure of the local authority.
6. A **revenue grant** is a grant which may be described as a capital grant by the grant provider but the grant conditions permit the local authority to use the grant to fund capital expenditure of third parties and the local authority has relied on this condition to fund a grant to, or the direct expenditure of, a third party.

#### APPLICATION

7. This statutory guidance applies for the 2022-23 and 2023-24 financial years.

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

8. This guidance is only applicable to the additional capital grant of £120.60 million for 2022-23 and 2023-24 which was confirmed as part of the Local Government pay deal in a letter to Directors of Finance on 7 October 2022.
9. Local authorities shall account for this capital grant in accordance with proper accounting practices before applying these statutory accounting requirements unless those practices conflict with this statutory guidance.

10. The flexibilities set out in paragraphs 11 to 19 below provide a temporary exception to paragraphs 13, 14 and 16 of Part 2 of Finance Circular 3/2018 for the use of capital grant.

### **Use of Capital Grant to Fund Loan Repayments**

11. The capital grant may be used to provide funds for the repayment of the principal of loans (but not any payment of interest on loans), as set out in the capital grant consent letter.

12. Only capital grant utilised to meet loan repayments may be retained within the General Fund.

13. 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 for future use.

14. Any capital grant which is not used to meet loan repayments will therefore 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).

### **Use of Capital Grant to Fund Capital Investment in Affordable Housing**

15. The capital grant may replace reserves earmarked for use towards capital investment in affordable housing. Only an amount of revenue reserves which is equal to the value of the capital grant allocated for capital investment in affordable housing may be released to meet the pay award.

16. Once the capital 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.

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

### **Use of Capital Grant to Fund Capital Investment in the Housing Capital Programme**

18. The capital grant may replace Housing Revenue Account (HRA) CFCR or other revenue reserves earmarked for use towards the Housing Capital Programme.

19. Once the capital 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.

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

### **Capital Grant Used for Other Purposes**

21. Any remaining capital grant which is not utilised for one of the purposes set out above must be accounted for in accordance with Finance Circular 3/2018. Any unused capital grant must be returned to the Scottish Government.

### **ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS**

22. 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.

23. 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.

24. The analysis of statutory adjustments should not include a statutory adjustment where the amount of any adjustment is zero in the two financial years covered by the Movement in Reserves Statement.

***Scottish Government***

***30 November 2022***

***Victoria Quay, Leith, Edinburgh EH6 6QQ***