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Local Government Finance Circular 5/2022

[Local Government Finance Circulars](#)

By e-mail:
Directors of Finance of Scottish Local Authorities

Our ref: A37341704
21 April 2022

Dear Director of Finance,

Statutory Guidance for Proper Accounting Practice: Statutory Repayment of Debt – Short Term Financial Flexibility

During 2020-21 Scottish Government worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for councils to address the funding pressures they faced due to the pandemic.

One of the financial flexibilities agreed was to allow a local authority to reduce the statutory repayment of debt in either the 2020-21 or 2021-22 financial year.

In light of the ongoing impact of COVID-19, in October 2021 COSLA requested a further one year extension to this flexibility for the 2022-23 financial year.

Ministers have agreed to the extension of the short term financial flexibility for the statutory repayment of debt, which is enacted as an amendment to The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 by The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (SSI 2022 No. 122).

This guidance sets out the proper accounting practice for the deferral of statutory repayments of debt in either 2020-21, 2021-22 or 2022-23. 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



Elanor Davies
Head of Local Authority Accounting

STATUTORY REPAYMENT OF DEBT – SHORT TERM FINANCIAL FLEXIBILITY

Scottish Government

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PART 1 – BACKGROUND

1. In order to respond to the financial pressures faced by local authorities as a result of the pandemic, the Scottish Government worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for local authorities, to address the funding pressures in 2020-21.
2. These flexibilities included the option to defer the statutory repayment of debt in either 2020-21 or 2021-22.
3. The loans fund repayment deferral flexibility was enacted through The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021 (the 2021 Regulations) which amended The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations).
4. At that time the Scottish Government considered that these short term measures were sufficient and it was not foreseen that the pandemic would continue to have such an impact or for such an extended period. However in light of the ongoing impact of COVID-19, in October 2021, COSLA wrote to the Cabinet Secretary for Finance and the Economy requesting a further one year extension to the financial flexibilities agreed.
5. The Cabinet Secretary for Finance and the Economy agreed to the requested extension to the loans fund repayment deferral flexibility and this was enacted through The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (the 2022 Regulations) which amended the 2016 Regulations.

Application

6. The flexibility offered is time limited. It only applies to the financial years 2020-21, 2021-22 and 2022-23.
7. The 2022 Regulations amend the 2016 Regulations to provide a local authority with the power to reduce the statutory repayments of loans fund advances in any one of the financial years 2020-21, 2021-22 or 2022-23. The power to defer repayment of borrowing can only be used in one of these three financial years. If statutory

repayments are reduced the Regulations require repayment of that amount within the shorter of either: (i) the remaining period of the loans fund advance; or (ii) twenty years from the end of the financial year in which the reduction is made.

8. No specific provision is made as to the amount of each repayment, this is for the local authority to determine, applying prudent principles.

Transparency

9. The statutory guidance below sets out disclosures which should be made in the Annual Accounts where a local authority has utilised the loans fund repayment deferral flexibility.

Scottish Government
20 April 2022
Victoria Quay, Leith, Edinburgh EH6 6QQ

PART 2

ACCOUNTING FOR THE STATUTORY REPAYMENT OF DEBT – SHORT TERM FINANCIAL FLEXIBILITY

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).

Financial year is a year which commences 1 April and ends 31 March.

Proper accounting practices are those defined in section 12 of the Local Government in Scotland Act 2003.

APPLICATION

1. This statutory guidance applies only to the financial years 2020-21, 2021-22 and 2022-23.

ACCOUNTING FOR THE STATUTORY REPAYMENT OF DEBT

2. The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (the 2022 Regulations) amends regulation 14A of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) to allow the deferral of statutory repayments in any one of financial years 2020-21, 2021-22 or 2022-23. The power to defer repayment of borrowing can only be used in one of these three financial years.

3. Regulation 14A(1) of the 2016 Regulations allows a local authority to reduce the amount of any of the statutory repayments it is due to make to the loans fund (whether that amount was determined under the 2016 Regulations or prior to them), but it may not reduce any of those repayments to an amount less than zero, and in determining the amount that is available for reduction, any increase resulting from a variation of the amount of that statutory repayment by the local authority after 31 March 2020 must be ignored.

4. Regulation 14A(2) sets out that for the purposes of section 56(6) of the 1973 Act the decision enabled by paragraph (1) is a function of the local authority with respect to borrowing money (and therefore is a function that may be discharged only by the local authority itself).

5. Regulation 14A(3) requires that where a local authority reduces the amount of any statutory repayment in accordance with paragraph (1), it must also determine the repayments that are to be made to repay it within whichever is the shorter of—

- (a) the remainder of the period relevant to that loans fund advance as already determined by the local authority, or
- (b) 20 years from the end of the financial year in which the reduction is made.

6. Regulation 14A(4) requires that in determining the amounts of the repayments required by paragraph (3) the local authority must consider what amounts are prudent.

7. Regulation 14A(5) sets out that nothing in regulation 14A restricts the power of a local authority to vary the period or amount of a repayment as permitted by regulation 14(2) of the 2016 Regulations.

ANNUAL ACCOUNTS – STATUTORY REPORTING

Disclosures

8. A local authority should disclose in a note to the financial statements:
- the value of the statutory repayment of debt that has been deferred in the year of deferral. Any deferral in 2020/21 should be disclosed in the 2021/22 financial statements.
 - the term over which the deferred repayments will be repaid.

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