



T: 0131 244 1896
E: hazel.black@gov.scot

Local Government Finance Circular No 2/2021

By email

To: Directors of Finance of Scottish local authorities
Audit Scotland

Our ref: A30625503
24 February 2021

Dear Director of Finance,

CAPITAL RECEIPTS TO FUND THE IMPACT OF COVID-19

The Scottish Government worked jointly with COSLA to identify a package of financial flexibilities for councils to address the funding pressures they face due to the pandemic. This included the ability to use capital receipts received in 2020-21 and 2021-22 to fund the financial impact of COVID-19.

The details of this flexibility was agreed by COSLA and Scottish Ministers. This guidance provides the agreed flexibility.

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,

A handwritten signature in cursive script that reads "Hazel Black".

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

ACCOUNTING FOR CAPITAL RECEIPTS TO FUND THE IMPACT OF COVID-19

Scottish Government

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Part 1 – Background

Part 2 – Guidance on proper accounting practices – accounting for capital receipts to fund the impact of COVID-19

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. This is one of the financial flexibilities agreed by COSLA and Scottish Ministers to help address the funding pressures arising from the pandemic. The proposal was put to the UK Government who agreed that capital receipts received in 2020-21 and 2021-22 could be used to fund the impact of COVID-19. This guidance provides that flexibility.

Capital receipts to fund the impact of COVID-19

2. The Scottish Government recognises that it is not only the additional costs incurred by a local authority that are creating funding pressures. Certain professional fees, such as architects and quantity surveyor costs, which would normally have been capitalised, no longer meet the criteria for capitalisation and are now required to be met from revenue budgets. Loss on income from services leaves the associated expenditure unfunded. The statutory guidance does not therefore define qualifying expenditure. The approach taken is to allow capital receipts to be used to fund the financial impact of COVID-19, with the local authority required to demonstrate that capital receipts have been used for this purpose.

3. The statutory guidance requires full council to approve the use of capital receipts to fund the impact of COVID-19. It is not sufficient to seek agreement in principle. A local authority must demonstrate, through reporting to council, how capital receipts, together with additional funding, and any use of the loans fund repayment holiday, are to be used/ have been used to fund the financial impact of COVID-19. Separate reporting is not required, this reporting is to be incorporated into budget setting, budget monitoring and final outturn (Annual Accounts) reporting.

Power under which the guidance is issued

4. The statutory guidance is issued under section 12(2)(b) of the Local Government in Scotland Act 2003 [proper accounting practices – specified in guidance by Scottish Ministers]. A local authority is required to apply the guidance where a local authority has approved the use of capital receipts to fund the impact of COVID-19. Where a local authority has not approved the use of capital receipts to fund the impact of COVID-19 the statutory guidance has no application.

Application

5. The flexibility offered is time limited. It only applies to the financial years 2020-21 and 2021-22.

6. Capital receipts already held in the Capital fund/ Capital receipts reserve may only be used for the purposes set out in Schedule 3 of the Local Government (Scotland) Act 1975. Neither the local authority, nor the Scottish Ministers, has the statutory power to permit capital receipts held in the Capital Fund/ Capital receipts reserve to be used for any other purpose than that set out in the legislation. This guidance does not provide any authority to transfer capital receipts from the Capital fund / Capital receipts reserve to the capital grants and receipts unapplied account.

7. To be available to fund the impact of COVID-19 a capital receipt must be transferred to the capital grants and receipts unapplied account in the year the capital receipt is recognised. This is the variation of proper accounting practices i.e. the statutory adjustment. This means that whilst the statutory guidance permits capital receipts received in both the financial years 2020-21 and 2021-22 to be used to fund the impact of COVID-19 the decision to transfer the capital receipts to the capital grants and receipts unapplied account must be made in the year the capital receipt is recognised. It is not possible for a local authority to subsequently decide that a capital receipt received in 2020-21 is to be made available to fund the impact of COVID-19 in 2021-22.

Transparency

8. The statutory guidance sets out the Annual Accounts disclosure requirements for capital receipts set aside and used to fund the financial impact of COVID-19. These disclosures ensures there is transparency in the use of capital receipts.

Scottish Government
Local Government and Analytical Services Division
24 February 2021

[PART 2]

ACCOUNTING FOR CAPITAL RECEIPTS TO FUND THE IMPACT OF COVID-19

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).

General Fund means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973. The Housing Revenue Account (HRA) is a statutory account forming part of the General Fund which a council may be required to keep in accordance with the Housing (Scotland) Act 1987.

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.

Accounting Code – the CIPFA-LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

APPLICATION

9. This statutory guidance applies only to the financial years 2020-21 and 2021-22.

PROPER ACCOUNTING PRACTICES

10. Proper accounting practice is varied for capital receipts only where a local authority (full council) has approved the use of capital receipts to fund the financial impact of COVID-19. This variation is subject to compliance with the conditions as set out in this guidance.

ACCOUNTING FOR CAPITAL RECEIPTS

11. The variation to proper accounting practices is available only for those capital receipts recognised in 2020-21 and 2021-22. Capital receipts are required to be credited to the [renamed] *Capital grants and receipts unapplied account* in the same financial year as the capital receipt is recognised.

12. Capital receipts credited to the *Capital fund/ Capital receipts reserve* in 2020-21 must not be transferred from the *Capital fund / Capital receipts reserve* to the *Capital grants and receipts unapplied account* in 2021-22.

13. Subject to paragraph 11 and 12, there is no restriction on the value of capital receipts which may be transferred to the *Capital grants and receipts unapplied account* to fund the financial impact of COVID-19.

14. Capital receipts credited to the *Capital grants and receipts unapplied account* for COVID-19 may be used in either 2020-21 or 2021-22. This means capital receipts credited in 2020-21 may be used in either 2020-21 or 2021-22. Those receipts credited in 2021-22 may only be used in 2021-22.

15. Capital receipts credited to the *Capital grants and receipts unapplied account* to fund the financial impact of COVID-19 may not be used for any other purpose.

16. Capital receipts already held in the *Capital grants and receipts unapplied account* as at 31 March 2020 may not be used to fund the financial impact of COVID-19.

17. Unused capital receipts held in the *Capital grants and receipts unapplied account* to fund the financial impact of COVID-19 must be transferred to the *Capital fund / Capital receipts reserve* as at 31 March 2022. This is a transfer in usable reserves.

18. Capital receipts must not be transferred directly to the General Fund to fund the financial impact of COVID-19. Capital receipts must first be credited to the *Capital grants and receipts unapplied account* as a statutory adjustment. The subsequent transfer to the *General Fund* from the *Capital grants and receipts unapplied account* is a transfer in usable reserves.

19. From 1 April 2022 the renamed *Capital grants and receipts unapplied account* is to revert to the *Capital grants unapplied account* unless this account still contains capital receipts held for other purposes as permitted by separate statutory guidance.

ACCOUNTABILITY

20. Full council must approve the use of capital receipts to fund the financial impact of COVID-19. Approval of full council must be gained before proper accounting practices can be varied.

21. Where the use of capital receipts has been approved each local authority is to demonstrate, through reporting to full council, how capital receipts, together with additional funding, use of reserves, use of the loans fund repayment holiday, or any other financial flexibility agreed by Scottish Ministers are to be / has been used to manage the financial impact of COVID-19.

22. This reporting should form part of the reporting for budget setting, budget monitoring and final outturn /Annual Accounts.

ANNUAL ACCOUNTS – STATUTORY REPORTING REQUIREMENTS

Statutory Adjustments

23. 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 as required or permitted in this guidance.

24. The statutory adjustment for capital receipts forms part of the statutory adjustment for a gain or loss on the derecognition of an asset.

Capital receipts

25. The transfer of capital receipts held in the *Capital grants and receipts unapplied account* to either the *General Fund* or the *Capital Fund / Capital receipts reserve* is not a statutory adjustment. This transfer is to be reported in the Transfer to/ (from) other statutory usable reserves section of the Movement in Reserves Statement.

26. **An analysis of the reason for each transfer of capital receipts from the *Capital grants and receipts unapplied account* to the *General Fund* or to the *Capital fund / Capital receipts reserve* shall be made either in the Movement in Reserves Statement itself or in the notes.**

27. For the transfer of capital receipts to fund the financial impact of COVID-19 the suggested descriptor for the analysis is “Use of capital receipts to fund the financial impact of COVID-19”.

28. As part of the disclosure in the Annual Accounts for the *Capital grants and receipts unapplied account* a local authority is required to identify, separately, the amount held in that account for capital grants and the amount of capital receipts held to fund the financial impact of COVID-19. The amount of capital receipts held for equal pay, premiums on refinancing, and transformation projects are all to be disclosed separately. A prior year comparator on the amount of capital receipts held, and for each purpose, is required.