The Statutory Basis for Accounting for and Disclosing Reserves in Scottish Local Government Bodies (Revised 2021)

MANDATORY GUIDANCE

LASAAC is funded by:

LASAAC [The Local Authority (Scotland) Accounts Advisory Committee] is constituted of volunteer members, including representatives of the three funding bodies: CIPFA, Audit Scotland and the Scottish Government. LASAAC is primarily concerned with the development and promotion of proper accounting practice for Scottish local government. A key task in achieving this is LASAAC's representation on CIPFA-LASAAC which produces the UK-wide 'Code of Practice on Local Authority Accounting in the United Kingdom'.

Further information about LASAAC can be obtained at:
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NOTE: - Listed Finance Circulars are those extant at the time of preparing this guidance. Local Authorities will need to be alert to others that may be issued or withdrawn following publication of this guidance.

Background

1. In October 2005, LASAAC issued guidance on the accounting treatment, disclosure requirements, and legislative basis for reserves and funds in local authorities in Scotland.
2. There have been a number of changes in the financial reporting framework in the 15 years since the guidance was issued. LASAAC has therefore revised and updated the guidance to make sure it remains fit for purpose.

Scope and Status of this Guidance

3. This updated guidance is aimed at assisting practitioners operate reserves in a helpful way while also meeting the requirements of the Code of Practice on Local Authority Accounting in the UK as well as applicable legislation.
4. The guidance represents proper accounting practices under section 12 of The Local Government in Scotland Act 2003. It is consistent with both the Code and applicable legislation but in so far as it goes further than those requirements, it represents mandatory guidance for Scottish local government bodies. These bodies are local authorities (i.e. councils constituted under section 2 of the Local Government (Scotland) Act 1994) and bodies to which section 106 of the Local Government (Scotland Act 1973 Act applies (valuation joint boards, joint committees, regional transport partnerships and integration joint boards).

5. This guidance is applicable to Scottish local government bodies, but the precise requirements and relevance of different aspects will be affected by the legislative framework for, and decisions of, each body. In terms of legislation the restrictions relating to Integration Joint Boards (collectively and in each individual Integration Scheme[1]) and joint committee will affect what reserves are possible and relevant. Additionally as a further example some Scottish councils have previously decided to cease operating a Housing Revenue Account (HRA), and thus those references will not be applicable.
6. The terms 'reserve' and 'fund' are both used within legislation. It is the view of LASAAC that there is no difference in substance between these terms and, indeed, there should be consistent accounting treatment irrespective of the term used. This guidance continues to formally acknowledge the synonymous nature of funds and reserves and use of the term 'reserves' should be taken as including reference to funds.
7. The Code distinguishes between usable reserves (i.e. those representing resources which the body might use to support service delivery at the reporting date, subject to statutory or other requirements affecting the authority's financial management of those resources) and other unusable reserves (which are as a result of statutory adjustments and/or accounting gains or losses recognised in other comprehensive income and expenditure). The structure of this guidance reflects that distinction.
8. The scope of this guidance does not include advice on the level of balances that a local government body should hold in its reserves as that is a matter for each body to determine based on its individual circumstances.

[1] See The Public Bodies (Joint Working) Act 2014; subsequent secondary legislation (regulations); relevant IJB establishment orders and current effective Integration Scheme for each partnership.

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Application Considerations

9. Appropriate accounting, treatment and presentation of reserves is critical in complying with legislative requirements, accounting standards, and in ensuring that the financial statements present a true and fair view of an authority's finances.

10. The Prudential Code forms part of the control processes which affect how much a local authority, which has the necessary legal powers, may borrow. Authorities have legal responsibilities relating to the Prudential Code[2] and compliance is therefore regarded as mandatory. In compliance with the Prudential Code calculation of a key indicator, the Capital Financing Requirement (CFR), should be based on balance sheet data, including reference to relevant reserve balances. In some cases, for example revenue funded from capital under statute (REFCUS), it may be necessary to track specific elements within a reserve.

11. Where an authority has an HRA the identification of sub-balances within a single reserve, for example the Capital Adjustment Account, may be particularly relevant and necessary to comply with legislative requirements, including adherence to the Prudential Code. This does not inherently mean that presentation of such sub-balances in the annual accounts is necessary.

12. Authorities should note however that for legal purposes, such as the application of statutory adjustments, reference to the General Fund includes the HRA. The application of legislation[3] however creates a clear distinction between balances which are relevant for local taxation decisions, and balances which should affect HRA rent setting.

13. Where Scottish authorities earmark a portion of the General Fund in respect of the HRA, this guidance therefore requires it to be described as the HRA balance and allows the HRA balance to be presented as if it were a separate reserve in the MiRS. Accounting references to the presentation of a General Fund balance will therefore normally exclude the HRA balance.

14. All bodies are responsible for ensuring compliance with relevant legislation and thus should consider the requirement for identification, although not necessarily presentation, of sub-balances within reserves.

Statutory basis

15. Usable reserves can be used to fund the delivery of services, subject to any statutory limitations or other requirements affecting their use. Scottish local government bodies can only create a usable reserve for external financial reporting purposes if they have a specific statutory power to do so. The statutory powers in Scotland are summarised in the following table:

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[2] See section 35 of the Local Government in Scotland Act 2003; and 2004 No. 29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004, Regulation 2(2).

[3] Primarily the Housing (Scotland) Act 1987. Examples of the distinction drawn between the General Fund, for local taxation purposes, and the HRA balance include sections 203 and 204; schedule 15 (section 2 (1) (h); section 9 (1) & (2).

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Usable reserve	Source of statutory power	Summary of permitted use
General Fund	Section 93 of the Local Government (Scotland) Act 1973 (the 1973 Act) Applicable to all local government bodies	All sums received to be credited to the General Fund and all expenses payable to be charged to it
Capital Fund	Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) Only applicable to a council or where legislation extends this power to a section 106 body	Financing capital expenditure and the repayment of the principal of loans.
Renewal and Repair Fund		Financing expenditure to be incurred in repairing, maintaining, replacing and renewing non-current assets
Insurance Fund		Defraying any loss where a body could have insured against a loss but has not done so and for paying premiums on an insurance policy
Capital Grants (and Receipts) Unapplied Account	Statutory guidance in Finance Circulars 7/2018, 1/2019, 4/2019 and 02/2021[i] Applicable to all local government bodies under section 12 [proper accounting practices] of the Local Government (Scotland) Act 2003	Holding unused capital grant at the year end and capital receipts that will be used to fund equal pay, premiums on repaying loans early, or qualifying expenditure on transformation projects. Finance Circular 02/2021 allows use of capital receipts to fund the financial impact of COVID-19. (Note: time limitations apply to some applications).

16. LASAAC considers it important that practitioners are clear regarding the specific statutory power that applies for each usable reserve that the local government body specifically presents, and describes as such, in the Movement in Reserves Statement (MiRS) or notes.
17. Other legislation, more local in nature, may provide an individual authority with the power to hold a specific reserve[4]. It is not the intention of this guidance to address each and every local power which may be available. In such cases, local authorities should have regard to the principles addressed in this guidance.
18. Scottish local government bodies should clearly identify and present a single General Fund balance (excluding the HRA) in the primary financial statements. In Scotland the ear-marking of General Fund balances, as a financial planning and management practice, should not obscure transparency regarding the overall General Fund position (excluding the HRA). For the avoidance of doubt, local

[4] For example the City of Glasgow District Council Order Confirmation Act 1988. Part II, Sections 3 to 5 of the Order which enabled the then district council (and subsequently Glasgow City Council) to maintain a fire insurance fund, a social, cultural and recreational reserve fund and separately defined repairs and renewals fund. An additional example of locally specific powers are Harbour Reserve Funds, the Zetland County Council Act 1974 and the Orkney County Council Act 1974

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authorities in Scotland are not permitted to disclose separate reserves which relate to devolved school management or for significant trading operations.

19. Scottish local government bodies can earmark part of the General Fund balance (or other statutory fund) but important distinction is that the earmarked parts remain part of the General Fund and should not be described or presented as separate reserves. The same overall effect can nevertheless be achieved.

20. It is recommended that local government bodies draw a distinction between

- 'mandatory earmarked balances', for example gains on financial instruments classified as fair value through profit or loss; or council tax income arising from the removal of some council tax discounts which must be used for specific purposes; and
- 'voluntary earmarked balances', for example reflecting the authority's discretionary financial management plans for the use of funds.

21. The section of this guidance on Presentation and Disclosures explains how earmarked parts of the General Fund or other statutory fund should be disclosed.

Accounting treatment

22. The Code requires items meeting the definition of income or expenses to be recognised in the Comprehensive Income and Expenditure Statement (CIES). This means:

- Income cannot be credited directly to a reserve. It must first be recognised as income in the CIES, and then either remain in the General Fund or be transferred via the MiRS to one of the other reserves.
- Expenditure cannot be debited directly to a reserve. It must first be recognised as an expense in the CIES, and then an equivalent amount is transferred via the MIRs to the General Fund from one of the other reserves.

General Fund

23. The General Fund is required to be operated in accordance with Section 93 of the 1973 Act. The requirement for a General Fund applies to local authorities and, under section 106, also to joint boards, regional transport partnerships, integration joint boards, joint committees etc.

24. As a general rule, income and expenditure recognised in the CIES is automatically credited or charged to the General Fund unless overridden by legislation or statutory guidance. There are also other funding adjustments that are unique to local government accounting.

25. A summary of the main debits and credits to the General Fund is provided in the following table:

Debits	**Credits**
Revenue expenditure recognised in the CIES	Income recognised in the CIES
Capital expenditure funded from General Fund	Statutory guidance adjustments to mitigate the impact of specific aspects of expenditure recognised in the CIES
Repayment of Loans Fund advance	Revenue expenditure funded from borrowing as permitted by legislation or Scottish Ministers consent.

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Capital Fund

26. Paragraph 22(1a) of Schedule 3 of the Local Government (Scotland) Act 1975 (1975 Act) empowers (but does not require) a local authority to establish a Capital Fund. Paragraph 28 empowers Regional Transport Partnerships and those joint boards which have a power to borrow, to establish a Capital Fund. An Integration Joint Board does not have a power to borrow and therefore does not have the power to establish a Capital Fund.

27. Where a Capital Fund is established, it is required to be operated in accordance with paragraphs 22(1a) and 23 of Schedule 3. A summary of the permitted debits and credits, and guidance on each entry, is provided in the following table:

Entries for Capital Fund	**Guidance**
Debits	
Capital expenditure funded from the Capital Fund	The capital expenditure should not be charged directly to the reserve. An amount equivalent to the expenditure incurred should be transferred (debit) from the Capital Fund to the Capital Adjustment Account (credit). The transfer between the reserves should be reported in the MiRS.
Providing money for repayment of the principal of loans (repayment of loans fund advance)	Where the loans fund repayment is to be funded from the Capital Fund, Finance Circular 7/2016[i] clarifies that the repayment still requires to be charged, in full, to the General Fund as a statutory adjustment in the MiRS. The transfer from the Capital Fund (debit) to the General Fund (credit) is a separate transaction to be reported as a transfer to or from other statutory reserves in the MiRS.
Credits	
Proceeds from the disposal of an asset (i.e. capital receipts) (unless set aside to fund equal pay, transformation projects or premiums arising from the refinancing of debt	Local government bodies should account for the disposal by: • recognising a gain or loss in Other Operating Expenditure in the Surplus or Deficit on the Provision of Services (SDPS) in the CIES • transferring the disposal proceeds from the General Fund (debit) to the Capital Fund (credit) the MiRS.
Sums from revenue as the local authority may direct	The sum should be transferred (debit) from the General Fund to the Capital Fund (credit). The transfer between the reserves should be reported in the MiRS.

28. Finance circular 7/2016 clarifies that there is no statutory power for a body to use the Capital Fund or capital receipts to fund grants to a third party or to finance certain capital expenditure on non-current asset not owned by the local authority.

29. Paragraph 22(1a) does not require the establishment of a Capital Fund. However, where a local government body chooses not to establish a Capital Fund, the Code

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(paragraph 4.1.3.12 of the 2020/21 edition) requires capital receipts to be credited to a Capital Receipts Reserve. LASAAC considers that a Capital Receipts Reserve is in effect set up under the 1975 Act powers for a Capital Fund. This guidance therefore formally applies to the Capital Receipts Reserve the permitted debits and credits for the Capital Fund set out in the table at paragraph 27.

30. Whether a Capital Fund or Capital Receipts Reserve (CRR) is utilised the treatment of deferred capital receipts requires consideration. In these situations a distinction between those receipts which have been realised (or are immediately realisable); and those where receipt of cash or other consideration is deferred. Deferred capital receipts includes, for example, those sales proceeds where the receipt of cash is deferred (such as payment by instalments); and those where a finance lease receipt (authority as lessor) is recognised. **Where deferred capital receipts are held in a Capital Fund or CRR the relevant balance should be specifically disclosed in the annual accounts**.

Renewal and Repair Fund

31. Paragraph 22(1b) of Schedule 3 of the 1975 Act empowers (but does not require) a local authority to establish a Renewal and Repair Fund. Paragraph 28 empowers Regional Transport Partnerships and those joint boards that have a power to borrow, to establish a Renewal and Repair Fund. An Integration Joint Board has no power to borrow and does not therefore have the power to establish a Renewal and Repair Fund.

32. Where a Renewal and Repair Fund is established, it is required to be operated in accordance with paragraphs 22(1b) and 24 of Schedule 3. A summary of the permitted debits and credits is provided in the following table:

Entries for Renewal and Repair Fund (R&R)	Guidance
Debits	
Revenue expenditure incurred in repairing, maintaining, replacing and renewing non-current assets funded from the R&R Fund	Expenditure should be charged to the relevant service in the SDPS of the CIES An amount equivalent to the expenditure incurred should be transferred (debit) from the Renewal and Repair Fund to the General Fund (credit) The transfer between the reserves is included in the transfer to or from other statutory reserves reported in the MiRS.
Capital Expenditure incurred in replacing or renewing non-current assets funded from the R&R Fund	The capital expenditure should not be charged directly to the reserve. An amount equivalent to the capital expenditure incurred should be transferred (debit) from the R&R Fund to the Capital Adjustment Account (credit). The transfer between the reserves should be reported in the MiRS.
Credits	
Sums from revenue as the body may direct	The sum should be transferred (debit) from the General Fund to the R&R Fund (credit).

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	The transfer between the reserves is included in the transfer to or from other statutory reserves reported in the MiRS.

Insurance Fund

33. Paragraph 22(1ba) of Schedule 3 of the 1975 Act empowers (but does not require) those local authority bodies to establish an Insurance Fund. Paragraph 28 empowers Regional Transport Partnerships and those joint boards that have the power to borrow to establish an Insurance Fund. An Integration Joint Board does not have a borrowing power and therefore does not have the power to establish an Insurance Fund.

34. Where an Insurance Fund is established, it is required to be operated in accordance with paragraphs 22(1ba) and 24(1) of Schedule 3. A summary of the permitted debits and credits to the Insurance Fund is provided in the following table:

Entries for Insurance Fund	**Guidance**
Debits	
Defraying any loss where a body could have insured against a loss but has not done so	Expenditure should be charged to the relevant service in the SDPS of the CIES. An amount equivalent to the expenditure incurred should be transferred (debit) from the Insurance Fund to the General Fund (credit). The transfer between the reserves is included in the transfer to or from other statutory reserves reported in the MiRS.
Paying premiums on an insurance policy	Expenditure should be charged to the relevant service in the SDPS of the CIES. An amount equivalent to the expenditure incurred should be transferred (debit) from the Insurance Fund to the General Fund (credit). The transfer between the reserves is included in the transfer to or from other statutory reserves reported in the MiRS.
Credits	
Sums from revenue as the body may direct	The sum should be transferred (debit) from the General Fund to the Insurance Fund (credit). The transfer between the reserves is included in the transfer to or from other statutory reserves reported in the MiRS.

35. The LASAAC guidance issued in 2005 on accounting for the Insurance Fund which recommended the charging of an internal insurance premium has been withdrawn. A LASAAC advisory note on internal transactions explains that any internal insurance premiums charged for management purposes should be eliminated in the Expenditure and Funding Analysis.

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Capital Grants (and Receipts) Unapplied Account

36. Under [Finance Circular 3/2018], the Capital Grants Unapplied Account should be used to hold capital grant that is unused at the year end.
37. It should be renamed as the Capital Grants and Receipts Unapplied Account if it is also used to hold capital receipts set aside to fund:
    - equal pay under Finance Circular 1/2019
    - premiums on early loan repayment under Finance Circular 7/2018
    - capital receipts to fund qualifying expenditure on transformation projects under Finance Circular 4/2019.
    - For funding the impact of COVID-19 in the financial years 2020/21 and 2021/22 under Finance Circular 02/2021.

Interest on reserves

38. Interest is to be presented as income or expenditure in the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement. Direct crediting of interest as income to reserves, or debiting of interest as an expense to reserves, is not permitted.
39. The element of the interest that applies to the statutory reserves other than the General Fund should be included in a transfer to the other statutory reserves reported in the MiRS.
40. No entries are required in respect of the element of interest that applies to the General Fund as that will automatically be credited to that reserve as a consequence of recognition in the CIES.

Unusable reserves

Statutory basis

41. The Code classifies reserves as unusable when they arise as a result of statutory adjustments and/or accounting gains or losses recognised in other comprehensive income and expenditure rather than SDPS. They therefore cannot be used to fund the delivery of services and are therefore 'unusable' in that context.
42. Unusable reserves arise either as a consequence of accounting requirements that do not allow movements in the value of assets to be recognised in the SDPS (e.g. revaluation reserve) or because they are part of a statutory adjustment that mitigates the impact of certain accounting standards on the General Fund.

Revaluation Reserve

43. The balance on the Revaluation Reserve represents the net increase (ignoring decreases below historical cost) in the value of non-current assets as a result of them being carried in the Balance Sheet at revalued amounts rather than historical cost. Historical cost is deemed to be the carrying amount of an asset (adjusted for subsequent depreciation or impairment) as at the later of:
    - 1 April 2007 (i.e. the date that Revaluation Reserves were first established); or
    - the date of acquisition.
44. A summary of the permitted debits and credits to the Revaluation Reserve, and guidance on each entry, is provided in the following table:

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Entries for Revaluation Reserve	Guidance
Debits	
Revaluation decreases	Impairment losses and revaluation decreases up to the credit balance on the reserve for the particular asset being impaired or revalued.
Asset disposals	An entry to remove the credit balance in respect of asset disposals.
An amount equal to the part of the depreciation charge incurred only because the asset is carried at current value rather than cost	This is necessary so that the unrealised gains relating to the asset are not overstated (the corresponding credit should be a reserve transfer to the General Fund).
Credits	
Revaluation increases	This credit may be restricted for depreciation foregone in the event that the increase is reversing a previously recognised impairment.

45. The Revaluation Reserve balance requires to be built up from records of revaluation increases and decreases for each asset. It is therefore necessary that asset registers are capable of maintaining information at the level of individual assets, rather than as a pooled balance.

Financial Instruments Revaluation Reserve

46. The Code also requires a separate revaluation reserve for financial instruments. A summary of the permitted debits and credits to the Financial Instruments Revaluation Reserve, and guidance on each entry, is provided in the following table:

Entries for Revaluation Reserve	Guidance
Debits	
Fair value decreases	A loss on a financial asset measured at fair value through other comprehensive income should be debited to this reserve, except for impairment losses, until the financial asset is derecognised.
Financial asset disposals	On derecognition, a cumulative loss should be reclassified to the SDPS in the CIES.
Credits	
Fair value increases	A gain on a financial asset measured at fair value through other comprehensive income should be credited

	to the reserve, except for reversal of impairment losses, until the financial asset is derecognised
Financial asset disposals	On derecognition, a cumulative gain should be reclassified to the SDPS in the CIES

Statutory Adjustment Accounts

47. Statutory adjustments typically amend the timing of when a transaction or entry required by accounting standards is to be funded by a charge against the General Fund (taxpayer resources).These adjustments are normally specified in the Scottish Government's Local government finance circulars.

48. There are currently four statutory adjustment accounts. This guidance does not seek to change the operation of those accounts nor is it intended to provide details of how they should be operated. Practitioners are advised to refer to the relevant finance circular for the detailed requirements. However, in the interests of completeness, and for the convenience of practitioners, the names of each statutory adjustment account, a brief summary of its use, and the relevant finance circular that governs it application are set out in the following table:

Name	**Finance circular**	**Summary of use**
Capital Adjustment Account	7/2016 3/2018	To hold statutory adjustments in respect of capital such as those removing from the General Fund charges for depreciation, impairment, revenue expenditure funded from borrowing, capital grants and charging to the General Fund repayments to the Loans Fund.
Financial Instruments Adjustment Account	7/2018	To hold statutory adjustments in respect of financial instruments such as: • credits (debits) for the annual amortisation of premiums (discounts) on the extinguishment of debt • debits or credit for the difference between the effective interest on 'stepped' loans held at 31 March 2007 and the contract interest.
Employee Statutory Adjustment Account	2/2018	To hold statutory adjustments in respect of • remove from the General Fund the net increase or decrease in the untaken annual leave liability during the year • the deferred charge for the equal pay provision.
Pension reserve	4/2016 The Local Government Pension	To hold statutory adjustments in respect of removing the IAS 19-based pension costs from the General Fund and replacing them with employer contributions.

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	Reserve Fund (Scotland) Regulations 2003.	

Presentation and disclosure

Presentation of reserves in the MiRS

49. The Code requires an analysis of the various usable reserves to be presented in the MiRS, but allows a single heading to cover all the unusable reserves. The following table illustrates the generally expected analysis of reserves and provides guidance for each:

Reserves	**Guidance**
General Fund	This guidance prohibits earmarked parts being presented separately in the MiRS (but requires them to be disclosed in the notes – see above).
HRA balance	The HRA balance is an exception to the above rule and (as explained above) should be presented separately in the MiRS.
Renewal and Repair Fund	The statutory power for a Renewal and Repair Fund refers to a single fund. This guidance permits only one such fund to be disclosed on the face of the MiRS, and requires the extent of any earmarking to be disclosed in a note.
Capital Fund	This guidance permits only one Capital Fund to be presented on the face of the MiRS.
Insurance Fund	This guidance permits only one Insurance Fund to be presented on the face of the MiRS.
Capital Grants (and Receipts) Unapplied Account	This account should be treated as a usable reserve.
Total usable reserves	This line should show the total for all usable reserves.
Unusable reserves	Unusable reserves hold unrealised gains and losses or adjustments included in the MiRS line for the differences between the accounting basis and funding basis. Local authorities should present all unusable reserves in one line in the MIRs (though may disclose an analysis in the notes).
Total reserves of the body	There should be a line showing the total (usable and unusable) reserves of the body.

Presentation of movements in reserves in the MiRS

50. The Code requires the movements on each reserve during the year to be presented in the MiRs. These are summarised in the following table:

Item	Explanation and action
Balances at end of previous period	These should agree to the comparative amounts in the Balance Sheet.
Total comprehensive income and expenditure	There is no requirement to show lines separately for the SDPS and Other Comprehensive Income and Expenditure. The amount (or amounts if separate) should agree to the CIES.
Adjustments to usable reserves permitted by accounting standards (Scotland only)	This line relates to items charged or credited to the SDPS that may, in accordance with accounting standards, be transferred to or from other accounting reserves. The Code therefore allows Scottish authorities to transfer the valuation element of depreciation charges directly to the Revaluation Reserve. The Code allows that this is optional. For consistency of reporting in Scotland this LASAAC guidance makes this presentation mandatory. **The option of presenting the reserves adjustment for the valuation element of depreciation as a statutory adjustment is withdrawn**.
Adjustments for the differences between the accounting basis of items included in the CIES and the funding basis required by regulations etc	This line relates to items charged or credited to the SDPS that are not permitted debits or credits to the General Fund. They are subject to statutory adjustments to remove the impact from the General Fund. An analysis of the adjustments should either be presented on the face of the MiRS or disclosed in the notes. The Code (paragraph 3.4.2.57 of the 2020/21 version) sets out the items that should be included in the analysis.
Transfers to and from other statutory reserves	Included in this line, in addition to the straight-forward transfers between usable reserves, should be transfers of capital receipts from the Capital Grants and Receipts Unapplied Account to the General Fund to fund equal pay or transformation expenditure. As earmarked parts of the General Fund are not separate reserves, any movements between the earmarked parts do not represent transfers between reserves and should not be included in this line.
Balances at end of reporting period	These should agree to the amounts in the Balance Sheet, and total to the net worth of the body at that date.

Treatment of HRA balance in the MiRS

51. The only exception to the prohibition on presenting earmarked parts of the General Fund as a separate reserve is in respect of the Housing Revenue Account (HRA). Although the legislative framework[5] does not refer to a specific HRA reserve, it is within the spirit of the Housing Scotland Act 1987 which ring fences HRA monies. Where Scottish authorities earmark a portion of the General Fund in respect of the HRA, this guidance requires it to be described as the HRA balance and allows the HRA balance to be presented as if it were a separate reserve in the MiRS.

Presentation of reserves in the Balance Sheet

52. The Code (paragraph 3.4.2.62 in the 2020/21 edition) requires reserves to be analysed between usable and unusable in the Balance Sheet. No further analysis (such as over usable reserves as required for the MiRS) is required. This guidance supports that position to avoid cluttering the face of the Balance Sheet.

53. The Code (paragraph 3.4.2.68 in the 2020/21 edition) sets out disclosure requirements for reserves. As unusable reserves are disclosed as single heading in the MiRS a local authority is required to disclose, in a note, the nature and purpose of each unusable reserve, the carrying amount of each reserve as at the balance sheet date and the movement in the reserve in the period.

Disclosure of analysis of earmarked portions of a statutory fund

54. The Code (paragraph 3.4.2.60 in the 2020/21 edition) requires an analysis of earmarked reserves to be disclosed in a note. This guidance applies that requirement in Scotland to earmarked elements of the General Fund or other statutory fund. Earmarked elements of the General Fund or other statutory fund at the year end should therefore be disclosed in a note.

55. For the avoidance of doubt, the sums disclosed as earmarked parts do not confer any legal or constructive obligation on the part of the local authority to expend the sums in the disclosed manner. They are an indicator of the policy intention of the local authority at the balance sheet date. Where the authority does have a legal or constructive obligation, it should be recognised as a provision under IAS 37 and not by earmarking the General Fund.

56. Guidance from LASAAC on IFRS 9 requires the General Fund to be earmarked for gains arising from the increase in the fair value of financial assets to the extent it is not available to fund the delivery of services due to not being readily convertible to cash.

57. An illustration of a disclosure note for the earmarked parts of the General Fund balance is provided at Appendix 1.

Disclosure of analysis of the Employee Statutory Adjustment Account

58. Finance Circular 1/2019 requires local authorities to disclose in the notes an analysis of the Employee Statutory Adjustment Account balance at the year end between:
    - equal pay
    - untaken holiday.

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[5] Primarily the Housing (Scotland) Act 1987. Examples of the distinction drawn between the General Fund, for local taxation purposes, and the HRA balance include sections 203 and 204; schedule 15 (section 2 (1) (h); section 9 (1) & (2).

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Disclosure of analysis of the Capital Grants and Receipts Unapplied Account

59. Finance Circular 1/2019, 4/2019 and 02/2021 require local authorities to disclose in the notes an analysis of the Capital Grants and Receipts Unapplied Account balance at the year end between:

    - capital grant
    - capital receipts held for equal pay
    - capital receipts held for transformation projects.
    - capital receipts held to fund the financial impact of COVID-19 (applicable only to 2020/21 and 2021/22).

Disclosure of analysis of the Financial Instruments Adjustment Account

60. Finance Circular 7/2018 requires local authorities to make disclosures relating to the Financial Instruments Adjustment Account (FIAA). Disclosure is required of the opening and closing sub-balances related to:

    - premiums and discounts associated with the refinancing of loans
    - loans to third parties granted at less than market interest rates
    - borrowing where the loan is a stepped interest rate loan.

    If the FIAA balance is only deferred premiums and discounts no analysis is required, but an explanation must be provided that it only 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.

Appendix 1

Illustrative disclosure

EARMARKED ELEMENTS OF GENERAL FUND

This note sets out the amounts earmarked in the General Fund for specific purposes and the movement in those earmarked amounts during the financial year. The General Fund is made up of accumulated surpluses over a number of years, which are reduced when used to fund expenditure that exceeds income for the year, or to reduce Council Tax. Earmarked elements of the General Fund identify future expenditure commitments made for specific projects or services.

In addition, the General Fund is also earmarked to identify an element of the balance that is not available to fund the delivery of services. This element represents the difference between the fair value of investments at 31 March 20xx compared with their original cost. This net gain (increases less decreases) is 'unrealised' because the underlying investments have not been sold as at 31 March. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the authority does not consider it prudent to use to fund services. [Add reference to any debit balance on the financial instruments' revaluation reserve (identifying FVOCI only)]

[Add reference to other unrealised gains recognised in accordance with IFRS 9 (e.g. in respect of recalculating the carrying amount of modified loans i.e. financial liabilities.]

The earmarked elements of the General Fund are as follows:

Earmarking	Balance at 1 April 20xx	Movement in year	Balance at 31 March 20xx
Earmarking 1			
Earmarking 2 etc			
Unrealised investment gains			
Unallocated			
TOTAL			

NOTE: - Listed Finance Circulars are those extant at the time of preparing this guidance. Local Authorities will need to be alert to others that may be issued or withdrawn following publication of this guidance.