

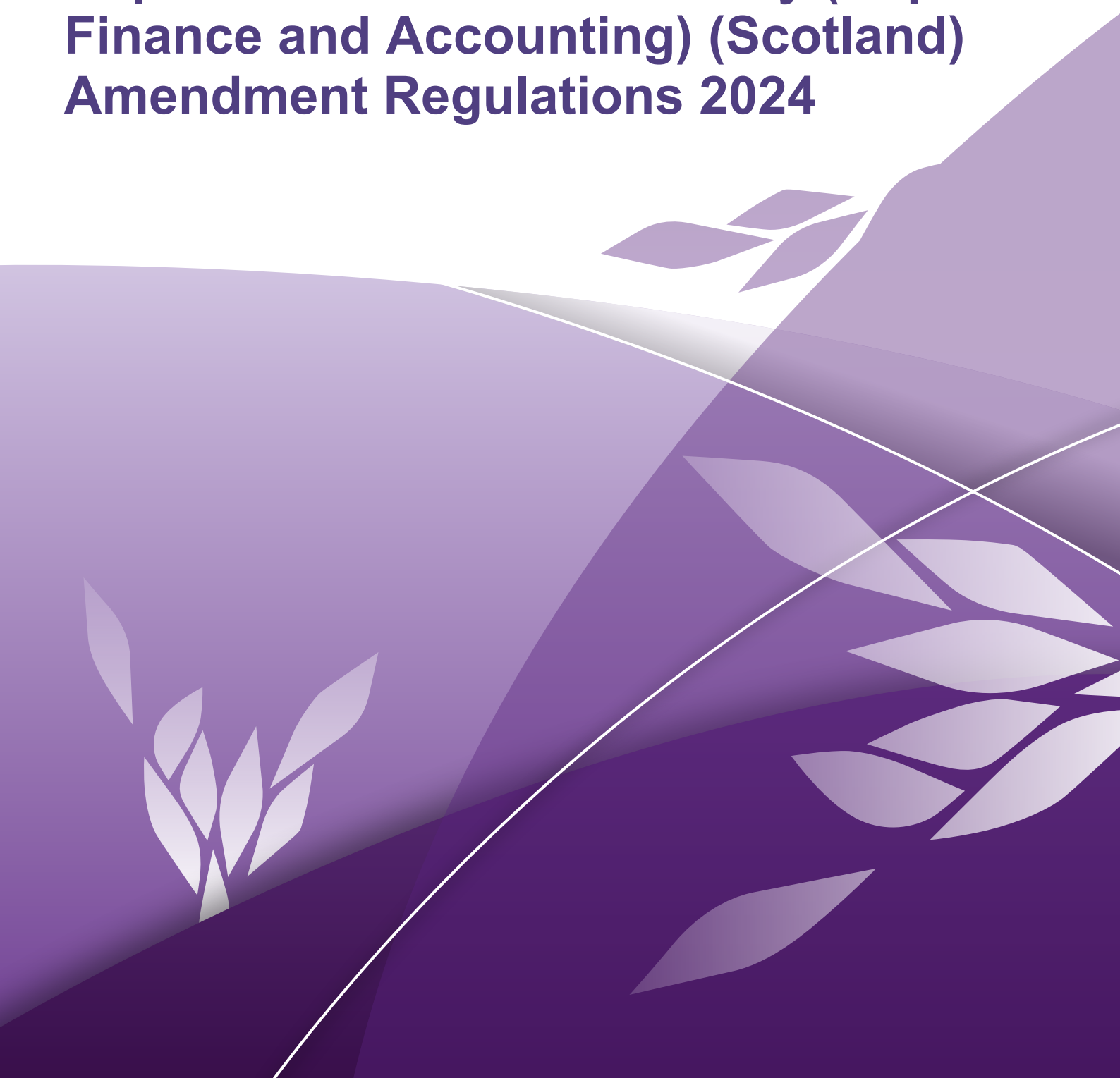


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## **Local Government, Housing and Planning Committee**

# **Report on the Local Authority (Capital Finance and Accounting) (Scotland) Amendment Regulations 2024**



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# Local Government, Housing and Planning Committee

To consider and report on matters relating to local government and planning falling within the responsibility of the Cabinet Secretary for Finance and matters relating to housing and tenants' rights within the responsibility of the Cabinet Secretary for Social Justice and matters relating to the Local Government Boundary Commission and local governance review and democratic renewal within the responsibility of the Deputy First Minister.



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# Committee Membership



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Scottish Conservative  
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Scottish National Party



**Pam Gosal**  
Scottish Conservative  
and Unionist Party



**Mark Griffin**  
Scottish Labour



**Marie McNair**  
Scottish National Party

# Introduction

1. At its meeting on 5 March 2024 the Committee considered the following affirmative instrument:

[The Local Authority \(Capital Finance and Accounting\) \(Scotland\) Amendment Regulations 2024 \(legislation.gov.uk\)](#)

# The Regulations

2. The [Policy Note](#) explains that—

” “The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) require a local authority to make an annual charge against the revenue of the authority to meet the costs of borrowing, known as ‘the statutory repayment of debt’ or ‘loan fund repayment’. This replaces the requirement of accounting standards for an annual charge for depreciation to be made against revenue, to reflect the declining value of an asset as it is used and to allocate in the annual accounts the original cost of the asset to periods in which the asset is used.”

3. The Policy Note further states that “there is evidence that the statutory arrangements are being widely interpreted by local authorities as permitting the retrospective restatement of borrowing costs, which was not the intention of the statutory arrangements.”

4. The purpose of the regulations, therefore, is to amend the 2016 Regulations to address a number of “financial risks”.

5. A [SPICe briefing](#) providing further information on the draft regulations was published as part of the meeting papers.

# Consultation

6. The Policy Memorandum confirms that—
  - ” “The Scottish Government issued a consultation paper to COSLA, CIPFA, LASAAC (Local Authority Scotland Accounts Advisory Committee), and all local authorities, setting out the intended improvements to the statutory accounting framework and the reasons for those improvements and allowed a 4-week period for consultees to respond.”
7. The Annexe to the Policy Memorandum includes a short summary of the original and revised amendments to regulations which were modified following consultation in order “to strike a balance between the requirement to better constrain financial risk whilst addressing the concerns expressed by Local Government within the consultation responses received.”
8. Scottish Government officials have confirmed that this was not a public consultation, as is the norm for statutory reforms that only affect local government, so the responses have not been published.
9. COSLA, The Local Authority (Scotland) Accounts Advisory Committee (LASAAC), and CIPFA Directors of Finance Section officials confirmed that they had responded to the consultation and provided updated correspondence which was published as part of [the meeting papers](#).



## Evidence from the Minister

10. At its meeting on 5 March the Committee took evidence on the Regulations from the Minister for Public Finance and Community Wealth and his officials. The official report of the Minister's evidence session is available on [the Committee's website](#).

# Delegated Powers and Law Reform Committee Consideration

11. The Delegated Powers and Law Reform Committee considered the draft regulations on 6 February and confirmed that it had [no points to raise](#).

## Conclusion

12. Following evidence, the Minister moved motion S6M-12003: That the Local Government, Housing and Planning Committee recommends that the Local Authority (Capital Finance and Accounting) (Scotland) Amendment Regulations 2024 [draft] be approved.

The motion was agreed to.

13. During evidence taking, the Committee explored a number of themes with the Minister. It agreed to invite further information where applicable as discussed below.
14. The Committee notes comments from the Minister's officials that "many" local authorities applied flexibilities under statutory regulations to defer capital repayments whilst revenue provision to meet borrowing costs has been declining since 2018/19. It further notes that the outstanding Scotland-wide balance as of 31 March 2022 was £16.9 billion and that loan repayments amounted to 30% of the total that would have been chargeable under accounting standards had depreciation been included. When invited to provide further information on the numbers of councils which have utilised this approach and the extent to which they had done so, officials undertook to do so in writing, and we look forward to receiving this information.
15. The Committee further welcomes the Minister's commitment to provide additional information arising from the ongoing review of the financial health and resilience of local authorities and the extent to which any may be at risk of financial failure as has been the case in some parts of England.
16. The Committee would also welcome any information regarding whether similar accounting practices and principles could or have been applied to Public Private Partnership debts, particularly in respect of the depreciation of assets.
17. Finally, the Committee draws the Minister's attention to the concerns raised in correspondence from COSLA in respect of the four-week consultation period on the regulations as originally proposed and the fact that this coincided with the busy pre-Christmas budget period.

