

EAST RENFREWSHIRE COUNCIL1 March 2023Report by Head of Accountancy (Chief Financial Officer)SERVICE CONCESSION ARRANGEMENTS**PURPOSE OF REPORT**

1. To seek approval to apply additional flexibility to the accounting treatment for Private Finance and similar contracts (referred to as Service Concession Arrangements) that were in place before 1 April 2022, in line with the Local Government circular 10/2022. Under such schemes the Council pays a contractor to build and maintain an asset typically for 25 to 30 years, with the asset fully transferring to the Council's ownership at the end of that period. In order to apply this flexibility, the decision must be taken to full Council for approval setting out the reason for the change. The submission to full Council must make explicit that this change is prudent, sustainable and affordable over the life of the asset.

**RECOMMENDATION**

2. It is recommended that in the current financial year, the Council approves the write off of the liability held in the Council's Balance sheet for its five Service Concession Arrangements (SCAs) over the lives of the assets instead of the lives of the contracts, in line with the Local Government finance circular 10/2022.

3. It is also recommended that Council notes the longer term implications of implementing this flexibility, including the affordability assessment outlined in para 13.

**REPORT**

4. The Local Government finance circular 10/2022 permits the option for Scottish Councils to apply flexibility to the accounting treatment for Service Concession Arrangements (SCAs) in place before 1 April 2022. The statutory guidance flexibility may be applied in either of the financial years 2022/23 or 2023/24 but permits retrospective application as an option.

5. The Council has five such schemes being

- the St Ninian's HS/ Mearns PS PFI scheme;
- the Williamwood HS/ Mearns Castle HS/ Woodfarm HS/ Carlibar PS PPP scheme;
- the Barrhead HS hub scheme;
- the M77/GSO Roads scheme (in conjunction with Scottish Government and South Lanarkshire Council); and
- the Clyde Valley Waste Recycling Plant scheme (in conjunction with North Lanarkshire, East Dunbartonshire, North Ayrshire, and Renfrewshire Councils)

6. If this approach is adopted, it must be applied to all service concession arrangements, leases and similar arrangements except for such arrangements where the contract will expire within five years, where it may be applied.

7. The Council's budget currently provides for the repayment of the debt element of such schemes over the 25 to 30 year contract period. The new flexibility will allow this debt to be written off over the life of the asset (typically 50 years) rather than over the shorter contact period.

8. Authorities have the flexibility to apply the change in the calculation of the statutory charge in either 2022-23 or 2023-24. The adopted approach will apply to all such arrangements going forward, in line with the key accounting principle of consistency. There is an exception for schemes that have less than 5 years remaining; the Council has one such scheme (St Ninian's HS/Mearns PS) which will not be excluded from the application of this flexibility.

## FINANCE AND EFFICIENCY

9. The current repayment charges for each SCA have been compared against an Equal Instalments of Principal (EIP) repayment profile based on the estimated useful asset lives, similar to that of assets owned by the Council. At the 31 March 2022 the total long term liability relating to the SCAs was £78,711k. As the assets are subject to a repairs & maintenance regime it is anticipated that they will be in good condition when they transfer to Council ownership at the end of the contract period, which can be between 25 and 30 years, at which time they will not be at the end of their useful life. However should the assets useful life be less than that estimated by the Council's Estates service, any unpaid liability will be charged to the General Fund in the Council's annual accounts.

10. The table below shows the length of each contract along with the estimated asset useful life for each of the SCAs:

<b>Service Concession Arrangement</b>	<b>Length of contract</b>	<b>Asset Life</b>
St Ninian's HS/ Mearns PS PFI scheme	25 years	50 Years
Williamwood HS/ Mearns Castle HS/ Woodfarm HS/ Carlibar PS PPP scheme	25 years	50 years
Barrhead HS hub scheme	25 years	50 years
M77/GSO Roads scheme	30 years	50 years
Clyde Valley Waste Recycling Plant scheme	26 years	26 years

11. The total cumulative adjustment up to 31 March 2022 which would result from changing the calculation of the repayment of the debt liability on the five SCAs, using a 50-year EIP for the schools and roads schemes and a 26-year EIP period in respect of the Clyde Valley Waste Recycling Plant, is £12.265m. This is broadly in line with the existing loans fund policy, reflecting that benefits from the SCAs can be achieved by better matching the debt costs to the expected useful lives of the assets, thereby repaying the cost of the debt across a longer period of time. This is a one-off in-year reduction and represents the excess amount paid to date as a result of calculating debt over the 25 to 30 year contract period rather than the longer asset life.

12. This does not change what we pay to the contractors in cash every year. This is simply about the accounting transactions to pay for the assets. Neither does it change the term over which we pay the contractors, it is just how we account for the repayment of the debt in the Council's Revenue Budget.

13. The reprofiling of the debt liability repayments would increase the Capital Financing Requirement (CFR), the Council's underlying need to borrow, by £12.265m as at 1 April 2022. This is not a cash benefit, but an accounting benefit and if the Council approves that the adjustment is made in the current financial year it will result in an increase to the General Fund unallocated reserve. The increase in the CFR will continue to be reduced by the revised repayments after each SCA contract has expired until the end of the revised period.

14. In the financial years from now until the expiry of each contract, the proposed changes will result in the Council's annual debt liability for these schemes reducing. On average, this will be around £3m per year for 10 years beginning with the current year. Following the end of each scheme's contract period, the proposed changes will result in the Council continuing to make debt repayments until the end of the asset's expected life. These continuing debt payments will peak at £2.6m per annum and, together with the ongoing running costs of these facilities, can be funded from the existing combined budgets for these schemes after the end of their contract periods. The additional revenue budget pressure arising from the lengthening of the repayment period can therefore be managed within the current budget available. The full repayment profiles are provided in detail for each SCA in Appendix A.

15. Over the full life of the SCAs the total repayment for the debt liability remains the same.

16. The Council's Loans Fund repayment policy for 2022/23 confirms that this methodology is already applied by the Council. The use of an EIP method for the writing down of the PPP debt liability therefore ensures a consistent approach for the writing down of all debt which is financing capital expenditure.

17. The Chief Financial Officer has included the financial implications of this flexibility within the context of the Council's medium/ long term plan and considered its application to be:

- **Affordable** - Ongoing costs of repaying debt after the end of the SCA contracts are affordable from the net PPP budget.
- **Prudent** – The approach better matches the costs of repaying debt to the useful life of the asset, and
- **Sustainable** – The generation of the retrospective benefit helps to sustain the Council's budget for a period of time

18. The accounting entries for the cumulative difference in the statutory repayment of debt will be a debit to the Capital Adjustment Account and a credit to the General Fund to recognise the reduction in the cumulative charge to the General Fund of the statutory repayment of debt and a corresponding increase in the balance of the Capital Adjustment Account (which will increase the Capital Financing Requirement). This will be reported in the Movement in Reserves Statement.

19. Specific financial statement disclosures will be required within the Council's Annual Accounts which are not yet drafted and will be subject to review and discussion with the Council's external auditors. However, the external auditors have reviewed our approach to this new flexibility and agreed with the principles of application.

## RECOMMENDATION

20. It is recommended that the Council approves the application, in the current financial year, to write off the liability held in the Council's Balance sheet for its five Service Concession Arrangements (SCAs) over the lives of the assets instead of the lives of the contracts, in line with the Local Government finance circular 10/2022.

21. It is also recommended that Council notes the longer term implications of implementing this flexibility, including the affordability assessment outlined in para 13.

Report Author

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Back Ground papers – Local Government finance circular 10/2022



Year	PPP principal repayments	PPP (2005/06, £56m, 27 years)				PFI (2001/02, £14m, 25 years)				Hubs (2018/19, £22m, 26 years)				Roads (2005/06, £35m, 31 years)				Clydevalley (2019/20, £3m, 26 years)				Total (reduction) /cost £000	Total NPV £000	
		Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 26 year EIP					
		Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000			
41	2062/63										446	446	109										446	109
42	2063/64										446	446	105										446	105
43	2064/65										446	446	102										446	102
44	2065/66										446	446	96										446	96
45	2066/67										446	446	95										446	95
46	2067/68																							
47	2068/69																							
48	2069/70																							
49	2070/71																							
50	2071/72																							
<b>Total</b>		55,722	55,722	(9,560)		14,200	14,200	(2,730)		22,307	22,307	(3,270)		35,259	35,259	(4,807)		2,958	2,958			17		(20,188)

PPP principal repayments	PPP (2005/06, £56m, 27 years)				PFI (2001/02, £14m, 25 years)				Hubs (2018/19, £22m, 26 years)				Roads (2005/06, £35m, 31 years)				Clydevalley (2019/20, £3m, 26 years)						
	Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 50 year EIP			Current position	Principal repayments based on simple 26 year EIP					
	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000	Current repayment £000	Revised repayment £000	(Reduction) /cost £000	NPV 3.5% £000			
pre 2022/23	24,508	18,945	(5,562)	(5,562)	9,679	5,964	(3,715)	(3,715)	2,691	2,231	(461)	(461)	14,657	11,988	(2,668)	(2,668)	200	341	141	141			
2022/23	2,358	1,114	(1,244)	(1,202)	1,058	284	(774)	(748)	618	446	(172)	(166)	1,090	705	(385)	(372)	87	114	27	26			
Yrs 2 to 5	10,800	4,458	(6,342)	(5,612)	3,463	1,136	(2,327)	(2,106)	2,293	1,785	(508)	(451)	4,727	2,821	(1,906)	(1,684)	331	455	124	111			
Yrs 6 to 10	18,056	5,572	(12,484)	(9,525)		1,420	1,420	1,080	3,507	2,231	(1,277)	(961)	8,516	3,526	(4,990)	(3,748)	427	569	142	103			
Yrs 11 to 25		16,717	16,717	9,099		4,260	4,260	2,319	13,198	6,692	(6,505)	(3,915)	6,269	10,578	4,308	1,614	1,914	1,479	(434)	(202)			
Yrs 26 to 40		8,916	8,916	3,242		1,136	1,136	441		6,692	6,692	2,174		5,641	5,641	2,051							
Yrs 41 to 50										2,231	2,231	509											
<b>Total</b>	55,722	55,722	(9,560)		14,200	14,200	(2,730)		22,307	22,307	(3,270)		35,259	35,259	(4,807)		2,958	2,958			179		