



Glasgow City Council

City Administration Committee

Report by Martin Booth, Executive Director of Finance

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Item 8

23rd March 2023

Financial Flexibilities – Service Concessions

Purpose of Report:

To outline the impact of recent changes to the treatment of service concessions and the associated accounting and financial implications for the Council.

Recommendations:

The City Administration Committee is asked to:

- a) Approve the adoption of the reprofiling methodology as outlined in 4.3 and the associated financial implications
- b) Approve the application of benefits as outline in paragraph 5
- c) Notes that the report should be approved by Council as a “C” paragraph at the next appropriate meeting.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐

consulted: Yes ☐ No ☐

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1. Introduction

- 1.1 The Scottish Government has issued Finance Circular 10/2022 – Accounting for Service Concession Arrangements, Leases and Similar Arrangements. This regulation provides the council with flexibility to realign the pattern of debt repayments associated with such arrangements to reflect the asset lives of the relevant assets rather than the contractual terms of individual arrangements.
- 1.2 This change does not affect the overall value of debt repayments but does allow for the spreading of such payments over a longer period.

2. Background

- 2.1 The council operates a number of service concessions as defined by these regulations. These include:

Schools PPP	The council entered a Public Private Partnership for the provision of school buildings, maintenance, and other facilities. This agreement provides the council with 29 replacement or renovated secondary schools and one primary school. The provider is required to maintain these schools to a high standard. When the agreement ends in July 2030 the schools will be handed back to the council with a guarantee of no major maintenance requirements for a five-year period.
Schools DBFM	This relates to two schools which the council procured under the Design, Build, Finance, Maintain model developed by the Scottish Government.

- 2.2 In each case the council has accounted for these schemes in line with proper accounting practice. This requires the assets associated with each scheme to be held on the balance sheet at fair value and depreciated in line with the appropriate asset life. As with all assets depreciation does not represent the true cost to the council's revenue account and is removed as part of the annual accounts to reflect the actual costs of the assets to the council.
- 2.3 The debt associated with these assets is held as a long-term liability and the debt repayment is recharged to the general fund in line with the actual contractual payments made to the contractor over the term of the contract.
- 2.4 The amount charged to the council's general fund therefore reflects the repayment off debt over the period of the contract and not the benefit the council receives over the useful life of the asset.

3. Revised Arrangements

- 3.1 The revised accounting arrangements provided by the Scottish Government allow the council to realign debt repayments charged to the council's general fund to reflect the useful life of the asset and not the contractual period of the agreements.
- 3.2 In adopting this approach the council can choose to realign these costs either by the equal instalment of principal method or the annuity method. In addition, it is the council's responsibility to identify an appropriate useful asset life over which to realign these costs.
- 3.3 In all cases and regardless of the approach adopted the decision to apply flexibility in this way must be approved by Council, setting out the reason for the change and must explicitly state that the change is prudent, sustainable and affordable over the life of the asset.

4. Impact on the Glasgow City Council

- 4.1 Officers have now reviewed the contents of the new regulations and assessed its impact on the council's service concession arrangements. This has been further assessed by the Council's treasury advisors Link to provide additional assurance over the findings.
- 4.2 This analysis assumes that the council adopts an annuity method for repayment of debt over the life of the asset which is now determined to be 40 years.
- 4.3 The adoption of the annuity method for debt repayment, reflects the council's standard practice in relation to all its land and buildings assets. This reflects a charge that is better matched to the consumption of the asset over its useful life i.e., that deterioration is slower in the earlier years of life but accelerates in the later years. The application of a 40-year useful life reflects the anticipated life of the asset and aligns with other school assets financed via local authority borrowing.
- 4.4 This approach results in a prudent, sustainable and affordable means of realigning debt repayments over the useful life of these assets.
- 4.5 It should be noted that these accounting changes will not affect the actual payments made to contractors in respect of their contractual arrangements. This is an accounting realignment reflecting the cost of consuming an asset over the useful life of the asset.
- 4.6 Adopting this approach results in debt repayments being spread over a longer period and gives rise to a one-off gain of £103.9m and an in year saving in of £5.6m in 2022-23. Ongoing savings have already been built into the updated financial forecast. These benefits will however have to be recovered by the extension of debt repayments beyond the existing contractual period to the end of the anticipated useful life.

5. Financial Impact

- 5.1 The council's underlying financial position remains difficult both this year and over the medium term. In applying the gains from these changes in the short term the council must ensure that it acts prudently and sustainably and supports its underlying priorities and financial integrity over the long term.
- 5.2 The gain from this accounting arrangement is required to support the challenging budget position in 2023/24. The creation of a Budget Support Fund was recommended in the Budget Report approved by Council on 16th February 2023. This was to support a number of budget options with implementation costs primarily around severance and also to support cash flow around the implementation of these options. This fund will also provide support for future year's budgets which are expected to be equally challenging.
- 5.3 In order to realise these gains within current and future budgets it will require the council to incorporate the cash flow implications of these accounting adjustments in line with its normal treasury management activities and investment strategy.
- 5.4 There remains a significant element of risk associated with the delivery of savings required to balance the 2023-24 and future year's budgets and adopting this approach provides the council with an underlying assurance that its budget is both balanced and prudent.

6. Policy and Resource Implications

Resource Implications:

Financial: As outlined in the report.

Legal: None

Personnel: None

Procurement: None

Council Strategic Plan: Specify which Grand Challenge (s) and Mission (s) the proposal supports. Where appropriate the relevant Commitment can also be listed.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify. The delivery of these changes supports the delivery of the Council Strategic Plan 2022-27

What are the potential equality impacts as a result of this report?

None

Please highlight if the policy/proposal will help address socio-economic disadvantage.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:

N/A

What are the potential climate impacts as a result of this proposal?

N/A

Will the proposal contribute to Glasgow's net zero carbon target?

N/A

Privacy and Data

Protection Impacts:

No

Are there any potential data protection impacts as a result of this report
Y/N

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out

7. Recommendations

7.1 The committee is asked to:

- a) Approve the adoption of the reprofiling methodology as outlined in 4.3 and the associated financial implications
- b) Approve the application of benefits as outline in paragraph
- c) Notes that the report should be approved by Council as a "C" paragraph at the next appropriate meeting.