

FC61. Service Concession Arrangements

Council considered a report from the Director of Transformation, Communities & Corporate Services which provided information on the changes permitted to how councils account for the repayment of debt on Services Concession Arrangements (SCA).

The revised SCA guidance allowed councils to account for the long-term liability of the school assets over their expected useful life, rather than over the contract term. In effect, the benefit from the SCA was achieved by better matching the debt costs of the secondary schools to the expected useful lives of the schools and, therefore, repaying the debt across a longer period of time. For Falkirk Council it was considered appropriate to estimate a useful life for these assets of 40 years.

The revised guidance also allowed councils to decide on their preferred approach to making debt repayments – the equal instalments of principle (EIP) method or an annuity method. This did not change what the Council paid the contractors in cash every year or the timing of those payments. This was simply about the accounting transactions to pay for the assets.

Councils could only apply the change in 2022/23 or 2023/24. However, councils were allowed to apply the change in accounting treatment retrospectively. This meant the Council could compare the payments made to date under the current arrangements and the payments that would have been made using the new guidance. This created a technical overpayment in the accounts with too much having been charged to the revenue account in previous years to pay for the assets. This was referred to as the Retrospective Adjustment. In addition to the retrospective gain, there would be benefits through adjustments to the repayments in the coming years. These benefits were added to the Retrospective Adjustment, to give a total overall potential benefit.

A number of principles were proposed for the future use of SCAs:-

- The use of SCAs should be considered a 'last resort' as they did not address the underlying budget deficit of the Council but instead allowed some reprofiling of the budget gap, in effect buying some time to address the underlying issues. Focus must therefore be on the identification and approval of recurring savings.
- As far as possible, the use of SCAs must be matched with the equivalent quantum of savings having been identified over the period of the Financial Strategy.
- Should recurring savings be identified and approved as early as possible, there was an opportunity to better use SCAs to facilitate future investment or targeting support to address need. This depended on identification and approval of savings, and the Council must continue to work towards this.

A final proposal for the use of SCAs would be presented as part of the Budget Report on 1 March 2023. That report would recommend the use of SCAs to allow the Council to set a balanced budget for 2023/24. Based on current estimates, Council may be asked to approve the use of £15.2m of SCAs in 2023/24.

Decision

Council noted that the Budget Report to be considered by Council at its meeting of 1 March 2023 would include proposals for the implementation and use of Service Concession Arrangements.