Agenda Item

Report

Report to:	**South Lanarkshire Council**
Date of Meeting:	**18 January 2023**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Service Concessions**

1. Purpose of Report

1.1. The purpose of the report is to:

- Provide information on the changes permitted to how councils account for the repayment of debt on "Services Concessions" and seek approval to implement the change.

2. Recommendation(s)

2.1. The Council is asked to approve the following recommendation(s):

(1) that the implementation of the guidance on Service Concessions, detailed in section 4, be approved;

(2) that the retrospective benefit of £64 million to the end of 2022/2023 (section 5.3) and the recurring saving of £4 million from 2023/2024 (section 5.4), be noted;

(3) that the costs incurred in years beyond the contract term be met from the budget released (section 5.8), be noted;

(4) that the cost of borrowing to use the retrospective funds released by implementing the guidance on Service Concessions can be met from monies we had already planned to spend on paying for interest through existing Loans Fund budgets (section 5.11), be noted

3. Background

3.1. As part of the Spending Review in May 2022, the Scottish Government announced that the implementation of Service Concessions Guidance was accessible to councils. As noted in the September Executive Committee report (Budget Strategy – 2023/2024 Update and Longer-Term Financial Outlook), the guidance on Service Concessions was being considered by officers with the implications being reported back to a future committee. Implementation of the guidance requires full Council approval.

3.2. Accounting for Service Concessions refers to how the Council accounts for its Secondary Schools PPP as well as a minor transaction relating to the payment arrangements for the Glasgow Southern Orbital (GSO) agreement with East Renfrewshire Council.

3.3. The Council entered the secondary schools' PPP agreement in June 2006. This financed the building of the secondary schools.

3.4. The Contractor built the schools and the Council agreed to make an annual contract payment for 33 years (a Unitary Charge Payment) until 2039/2040, being the initial 3 years of set-up and then the 30 years of the full contract. This is £38 million for financial year 2022/2023 and is a payment for the provision of the schools.

3.5. As part of the process of establishing the PPP arrangements, the Council added assets of £319 million to its balance sheet. After taking into account capital contributions made by the Council of £48m, a long-term liability (debt) of £271m was created. These are for accounting purposes only and as part of the year-end accounting requirements, the Unitary Charge Payment is split into 3 elements: Payment for Services, Repayment of Debt and Interest payable.

3.6. The element relating to the Repayment of Debt is used to reduce the long-term liability in the Balance Sheet. In effect, the accounting regulations followed mean that the Council was paying for the assets over the life of the contract (33 years). By the end of the 33 years, the debt outstanding will be nil and the assets will be transferred to the Council's ownership, with a remaining useful life.

3.7. At the end of 2021/2022, the long-term liability (notional debt) for the Secondary Schools' PPP is £186 million.

3.8. In 2005/2006 the Council accounted for the GSO arrangement by creating a liability of £0.681m on the balance sheet. An annual payment of £0.050 million is due for 30 years and at the end of 2021/2022, the debt outstanding is £0.462 million.

3.9. This paper will explain the principles behind the implementation of the Service Concessions Guidance (section 4) and will detail the financial implications of this guidance, including costs that need to be managed (section 5). It will also detail how these monies could be used (section 6). Section 7 summarises the position.

4. Service Concessions Guidance

4.1. The Council has a 33-year PPP contract for its secondary schools. At the end of the 33 years, the ownership of the schools' transfers to the Council. The schools are subject to a repairs and maintenance regime and are anticipated to be in a good condition when they transfer. This is not the end of their useful life.

4.2. The new guidance referred to in section 3.1 affords councils the ability to account for the payment for the assets over their expected useful life (50 years), rather than over the contract term (33 years). In effect, the benefit from the Service Concessions Arrangement is achieved by better matching the debt costs of PPP schools to the expected useful lives of the schools and, therefore, repaying the cost of debt across a longer period of time. In this instance it is suggested that the repayment period be extended from 33 years to 50 years.

4.3. A similar approach can be applied to how we account for the GSO with the benefit from this arrangement being better matched to the costs by extending the repayment period from 30 years to 40 years.

4.4. This does not change what we pay 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.

4.5. Councils are allowed to apply this change in accounting treatment retrospectively. This means we can now reflect how we would have accounted for paying for the assets had we always been permitted to do so, over the life of the asset rather than the contract. This creates an overpayment in our accounts with too much having been charged to the Revenue Account to pay for the assets.

4.6. While this does not release cash (the contractors do not pay us money back), it means that we can increase the Council's General Fund Reserve balance by reversing part of the charge that has been made which sits in an unusable reserve (Capital Adjustment Account).

5. Financial Implications

5.1. As noted in section 4.2, the guidance allows the debt repayments to be better aligned to the life of the asset, and also allows councils to decide on their preferred approach to making the debt repayments. The options are to make debt repayments using either the equal instalments of principal (EIP) method or an annuity method.

5.2. This report assumes the calculation of the debt repayment on the annuity basis as it best represents the consumption of the assets over their useful lives. The annuity method is used as standard practice in most PPP arrangements. Calculation of the debt liability repayments using the annuity method is considered a prudent approach as it reflects the time value of money (the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset are consumed over its useful life – it reflects the fact that an asset's deterioration is slower in the early years of life and accelerates towards the latter years. Therefore the economic use of the asset is greater in the latter years. The use of the annuity basis is appropriate for our specific Service Concessions.

5.3. By implementing the new guidance, section 4.6 notes that there will be a retrospective gain to the Council. This was originally estimated as a benefit of at least £61 million to the end of 2022/2023 (November paper to Executive Committee). However, following clarification in the guidance, officers have now finalised the calculations and the retrospective benefit to the end of 2022/2023 is £64 million. The new profile of repayments means that we will have 'over-paid' debt to the value of £64 million to the end of 2022/2023. This can be taken as a financial benefit and transferred to Reserves. The increase in the Council's Reserves balance can be used to support the Council's Revenue Budget Strategy going forward.

5.4. In addition, there will be a £4 million benefit from 2023/2024 which means that a permanent budget saving can be taken up to the level of around £4 million for the next 17 years from 2023/2024. This has been included in the 2023/2024 Budget Strategy to reduce the Budget Gap (Executive Committee, 2 November 2022).

5.5. Appendix 1 provides more information on how the benefit is arrived at.

5.6. **Repayment Over a Longer Term:** As a result of lengthening the repayment period as it is now aligned to asset life, there will be an extra cost each year for the 17 years after the end of the PPP contract. This amounts to £6.5million in 2040/2041, increasing to £14.9million in 2056/2057.

5.7. Taking into account an estimate for inflation over the remaining years and reducing the PPP Unitary Charge budget by the Level Playing Field Support which will no longer be provided by the Government after the end of the contract (£11 million), it is anticipated that a net budget (after Level Playing Field Support is deducted) in excess of £44 million is likely to be available by 2040/2041.

5.8. It is suggested that this PPP Unitary Charge budget (in excess of £44 million) that is no longer required to fund PPP payments as the payments to the contractor will have ceased, is then used to fund the additional payments resulting from lengthening the repayment period (section 5.6).

5.9. The additional costs of lengthening the repayment period will not, therefore, represent any additional revenue budget pressure as they can be managed within the PPP Unitary Charge budget available. We are not paying the contractor for longer and are not paying the contractor more.

5.10. **Costs linked to using the retrospective benefit:** As noted in section 4.6, this is not a cash benefit, but an accounting benefit. If we want to use the retrospective benefit to support the Budget Strategy, and ultimately to pay for expenditure, then we have to access cash funds to do that. One way of doing this is through borrowing. The need to borrow, and any resultant interest costs arise from how we choose to use the retrospective benefit, rather than because we are adopting the service concession guidance and implementing the change in accounting. How we choose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

5.11. In order to manage the costs of borrowing, we have developed a strategy that allows us to manage the costs of this approach within the existing budget. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for. The interest cost of borrowing linked to service concessions has been calculated and amounts to £0.226m in 2023/2024 and peaks at £5.487m in 2035/2036. The total interest amounts to £95.653m.

5.12. It is possible to calculate how costs incurred in the future compare to costs today. Due to inflation, costs incurred in the future are worth less than the same cost today. Taking into account this time value of money, the interest costs of £95.653m equates to £58.157 million at today's values.

5.13. This strategy takes detailed account of our levels of reserves and forecasts of our borrowing patterns across years that will allow the borrowing to be managed without having to add anything into the loan charges budget.

5.14. A summary of the strategy is provided in Appendix 2.

6. Use of Service Concessions Benefit

6.1. This paper is looking for agreement to implement the guidance on Service Concessions as detailed in this report. Future budget strategy reports will look for approval on how the benefits from implementation can be used.

6.2. Whilst this paper will not look for approval on how the released funding is used, we have noted in this paper, and in previous papers options around this. As noted in section 5.3, if the Service Concessions Guidance is implemented in 2022/2023, there will be a retrospective gain of £64 million. There will also be a permanent saving of £4 million from 2023/2024 onward (section 5.4).

6.3. The paper to the Executive Committee on 2 November 2022 noted that the 2023/2024 Budget Strategy includes the 2023/2024 impact of the 2022/2023 pay award (£5.7 million). There is also a shortfall of the increased pay award in financial year 2022/2023 itself (£5.7 million).

6.4. The paper proposed that consideration be given to covering the £11.4 million cost of the 2022/2023 Pay Award across 2022/2023 and 2023/2024 (2 years at £5.7 million per year) from the retrospective Service Concession benefit. It will be proposed that given the need to fund the 2022/2023 pay award, that Council approves the use of £5.7 million in the current year to pay for the 2022/2023 Pay Award, and that the impact into 2023/2024 be considered as part of the 2023/2024 Budget paper.

6.5. Taking this into account, consideration could then be given to using £42.6 million of the retrospective benefit to support the Council's medium term Budget Strategies (across 2024/2025 and 2025/2026). Taking account of the proposals to fund the 2022/2023 Pay Award (section 6.4) and the Budget Strategy, leaves £10 million of the £64 million retrospective benefit unallocated. These proposals were noted as being subject to member approval of the implementation of Service Concessions.

6.6. Consideration of these proposals will be included in the next report to members on the 2023/2024 Budget Strategy.

6.7 This paper proposed the principle of using service concessions but does not seek approval for the use of the potential benefit. These will feature in subsequent budget papers.

7. Summary

7.1. Reprofiling the debt in relation to the PPP schools would mean a retrospective gain of £64 million (section 5.3) and an annual benefit of £4 million starting in 2023/2024 (section 5.4). This £4 million has been referenced in the 2023/2024 Budget Strategy to reduce the Budget Gap.

7.2. While there will be extra costs after the PPP schools contract ends, these will be managed from the budget no longer required to pay for the PPP contract itself (section 5.8).

7.3. As the retrospective benefit is on an accounting basis, in order to use this benefit to spend on real expenditure items, the Council will have to fund this. Funding this from borrowing will result in interest costs (section 5.10).

7.4. The need to borrow, and any resultant interest costs arise from how we choose to use the retrospective benefit, rather than because we are adopting the service concession guidance and implementing the change in accounting. How we choose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

7.5. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for. As explained in section 5.11, we have developed a strategy that will allow the costs of borrowing to be managed within the existing budget. In this paper we are not asking members to approve how the funds are used.

7.6. The approach we have proposed in relation to service concessions demonstrates that implementing the Service Concessions Guidance is:

- **Affordable** – Ongoing costs of repaying debt after the end of the PPP contract are affordable from the remaining net PPP budget. Any interest costs can be managed within the current Loan charges Budget.
- **Sustainable** – the Loan Charges Budget can be maintained at current levels, and the generation of the retrospective benefit helps sustain the councils budget for a period of time.
- **Prudent** – the approach better matches the costs of repaying debt to the useful life of the asset.

8. Employee Implications

8.1. There are no direct employee implications from this report.

9. Climate Change, Sustainability and Environmental Implications

9.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

9.2. Climate Change targets will have an impact on the Council's future financial strategies. This will be included in future Budget Strategy papers.

10. Other Implications

10.1. The review of financial resilience is a way of understanding the key financial risks to the Council. The financial strategy is the way in which the Council can manage a number of these key risks which directly impact on the money available to deliver Council outcomes.

10.2. We will continue to monitor and report on these resilience indicators as appropriate.

11. Equality Impact Assessment and Consultation Arrangements

11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

11.2. There is no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

5 January 2023

Link(s) to Council Values/Priorities/Outcomes

- ♦ Accountable, Effective, Efficient and Transparent

Previous References

- ♦ Executive Committee, Budget Strategy – 2023/2024 Update and Longer-Term Financial Outlook, 21 September 2022
- ♦ Executive Committee, Update on the Budget Strategy for 2023/2024, 2 November 2022

List of Background Papers

- None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:

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Column		(A)	(B)	(C)	(D)	(E)	(F)
Repayment Profiles of Service Concession Arrangements							
		Roads		**Schools**		**Total Benefit**	
Row	**Year**	**Current**	**Revised**	**Current**	**Revised**	**Annual**	**Cumulative**
1	Pre 2022/2023	219,054.55	111,060.03	85,064,657.87	25,439,553.09	59,733,099.30	59,733,099.30
2	2022/23	21,825.02	11,065.22	7,135,211.86	2,513,419.77	4,632,551.89	64,365,651.19
3	2023/24	23,156.35	11,740.20	7,074,375.88	2,648,516.08	4,437,275.95	68,802,927.14
4	2024/25	24,568.88	12,456.35	7,365,319.64	2,790,873.82	4,586,558.35	73,389,485.49
5	2025/26	26,067.58	13,216.19	7,572,569.38	2,940,883.29	4,644,537.48	78,034,022.97
6	2026/27	27,657.71	14,022.38	7,565,643.12	3,098,955.77	4,480,322.68	82,514,345.65
7	2027/28	29,344.83	14,877.74	7,018,180.87	3,265,524.64	3,767,123.32	86,281,468.97
8	2028/29	31,134.86	15,785.29	6,825,634.49	3,441,046.59	3,399,937.47	89,681,406.44
9	2029/30	33,034.09	16,748.19	7,448,625.10	3,626,002.84	3,838,908.16	93,520,314.60
10	2030/31	35,049.17	17,769.83	8,636,950.88	3,820,900.49	4,833,329.73	98,353,644.33
11	2031/32	37,187.17	18,853.79	10,197,280.56	4,026,273.90	6,189,340.04	104,542,984.37
12	2032/33	39,455.58	20,003.87	11,427,189.58	4,242,686.12	7,203,955.17	111,746,939.54
13	2033/34	41,862.37	21,224.10	12,800,649.74	4,470,730.50	8,350,557.51	120,097,497.05
14	2034/35	44,415.98	22,518.78	14,149,049.91	4,711,032.26	9,459,914.85	129,557,411.90
15	2035/36	47,125.35	23,892.42	14,985,303.33	4,964,250.24	10,044,286.02	139,601,697.92
16	2036/37	0.00	25,349.86	15,384,406.69	5,231,078.70	10,127,978.13	149,729,676.05
17	2037/38	0.00	26,896.20	15,165,140.03	5,512,249.18	9,625,994.65	159,355,670.70
18	2038/39	0.00	28,536.87	16,517,232.32	5,808,532.57	10,680,162.88	170,035,833.58
19	2039/40	0.00	30,277.62	8,559,578.75	6,120,741.19	2,408,559.94	172,444,393.52
20	2040/41	0.00	32,124.55	0.00	6,449,731.03	-6,481,855.58	165,962,537.94
21	2041/42	0.00	34,084.15	0.00	6,796,404.08	-6,830,488.23	159,132,049.71
22	2042/43	0.00	36,163.28	0.00	7,161,710.80	-7,197,874.08	151,934,175.63
23	2043/44	0.00	38,369.24	0.00	7,546,652.75	-7,585,021.99	144,349,153.64
24	2044/45	0.00	40,709.77	0.00	7,952,285.34	-7,992,995.11	136,356,158.53
25	2045/46	0.00	43,193.57	0.00	8,379,720.67	-8,422,914.24	127,933,244.29
26	2046/47	0.00	0.00	0.00	8,830,130.66	-8,830,130.66	119,103,113.63
27	2047/48	0.00	0.00	0.00	9,304,750.18	-9,304,750.18	109,798,363.45
28	2048/49	0.00	0.00	0.00	9,804,880.50	-9,804,880.50	99,993,482.95
29	2049/50	0.00	0.00	0.00	10,331,892.83	-10,331,892.83	89,661,590.12
30	2050/51	0.00	0.00	0.00	10,887,232.07	-10,887,232.07	78,774,358.05
31	2051/52	0.00	0.00	0.00	11,472,420.79	-11,472,420.79	67,301,937.26
32	2052/53	0.00	0.00	0.00	12,089,063.41	-12,089,063.41	55,212,873.85
33	2053/54	0.00	0.00	0.00	12,738,850.57	-12,738,850.57	42,474,023.28
34	2054/55	0.00	0.00	0.00	13,423,563.79	-13,423,563.79	29,050,459.49
35	2055/56	0.00	0.00	0.00	14,145,080.34	-14,145,080.34	14,905,379.15
36	2056/57	0.00	0.00	0.00	14,905,379.15	-14,905,379.15	0.00
37	**Totals**	**680,939.49**	**680,939.49**	**270,893,000.00**	**270,893,000.00**	**0.00**	

This table shows the difference between how the Council currently accounts for the GSO and its Secondary Schools PPP and how it would do so if the revised guidance on Service Concessions as detailed in Section 4 of the report was implemented.

The current costs of repaying the debt are shown in Column A for the GSO and Column C for the schools with the revised costs shown in Columns B and D respectively.

The annual difference between the two arrangements is shown in Column E with the cumulative difference shown in Column F.

Pre 2022/2023 we had accounted for debt repayments of £0.219m for the GSO and £85.065m for the schools PPP, £85.284m in total. Under the revised guidance we should only have accounted for £0.111m and £25.440m, £25.551m in total, and a difference of £59.733m.

For 2022/2023, we are due to account for £0.022m of the debt relating to the GSO and £7.135m for the schools PPP. By applying the revised guidance, these can be reduced to £0.011m and £2.513m respectively. The total difference is £4.633m. This is combined with the pre 2022/2023 difference to give a total retrospective benefit of £64.366m as shown in Row 2 Column F in the table and explained in Section 5.3 of the report.

Column E shows the annual difference between the two arrangements, and it can be seen that applying the revised guidance results in lower debt repayments from 2023/2024 to 2039/2040. This allows the Council to take a permanent budget saving of £4m as referred to in Section 5.4 of the report.

Column E also shows that from 2040/41, by lengthening the repayment period to align with the life of the assets, there are additional costs each year after the end of the PPP contract as explained in Section 5.6 of the report. These can be managed within the available PPP Unitary Charge budget, Section 5.8 of the report.

Row 37 shows that the total repayments under both approaches remain the same. It is simply the timing of the repayment that has changed.

Service Concessions – Strategy to Manage Cost of Borrowing

1. Introduction

1.1. Service Concession guidance allows the debt repayments to be better aligned to the life of the asset, and also allows councils to decide on their preferred approach to making the debt repayments. The repayment options are to make debt repayments using either the equal instalments of principal (EIP) method or an annuity method. Calculating the debt repayment on the annuity basis best represents the consumption of the assets over their useful lives. Repayments start low and increase over time, reflecting the fact that an asset's deterioration is slower in the early years of life and accelerates towards the latter years. This repayment method has been assumed in the Council's implementation of the Service Concession guidance.

1.2. By implementing the new guidance, there will be a retrospective gain to the Council of £64 million which can be taken as a financial benefit and transferred to Reserves. The increase in the Council's Reserves balance can be used to support the Council's Revenue Budget Strategy going forward. In addition, there will be a £4 million benefit from 2023/2024 which means that a permanent budget saving can be taken up to the level of around £4 million for the next 17 years from 2023/2024.

1.3. These primarily represent an accounting benefit. If we want to use the retrospective benefit to support the Budget Strategy, we have to find a way of funding the expenditure. This could be through borrowing. This borrowing, and resultant interest costs arise from how we chose to use the retrospective benefit , rather than simply because we are adopting the guidance. How we chose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

1.4. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for.

1.5. Borrowing for this expenditure will result in interest costs amounting to £0.226 million in 2023/2024, peaking at £5.487 million in 2035/2036. The total interest amounts to £95.653m. This is shown in Table 1 below.

Table 1: Interest

Year	Interest £m	Year	Interest £m	Year	Interest £m
2023/2024	0.226	2032/2033	3.407	2041/2042	4.503
2024/2025	1.104	2033/2034	3.791	2042/2043	4.823
2025/2026	1.978	2034/2035	5.081	2043/2044	5.174
2026/2027	2.442	2035/2036	5.487	2044/2045	4.866
2027/2028	2.597	2036/2037	5.356	2045/2046	4.302
2028/2029	2.750	2037/2038	5.149	2046/2047	3.469
2029/2030	2.918	2038/2039	4.978	2047/2048	2.947
2030/2031	3.127	2039/2040	4.425	2048/2049	2.038
2031/2032	3.290	2040/2041	4.422	2049/2050	1.003

1.6. It is possible to calculate how costs incurred in the future compare to costs today. Due to inflation, costs incurred in the future are worth less than the same cost today. Taking into account this time value of money, the interest costs of £95.653m equates to £58.157 million at today's values.

1.7. We have developed a strategy that allows us to manage the costs of this approach within the existing budget. Section 2 provides details of the Strategy.

2. Strategy to Manage Borrowing Costs

2.1. **Levels of Borrowing:** The Council estimates the amount of money it has to borrow in order to fund its capital expenditure, after taking account of any other funding such as government grant and capital receipts. This is called the Capital Financing Requirement (CFR) and this represents the underlying need to borrow for capital expenditure.

2.2. In modelling the Council's loan charges, up to now it has been assumed that the Council would borrow up to the level of its CFR.

2.3. However, in recent years, the Council has held sizeable reserves and cash balances and as such, the level of borrowing actually required has been lower than the CFR. A lower than estimated level of borrowing, has meant that the level of interest costs has been reduced, enabling savings to be identified.

2.4. **Use of Reserves and Cash Balances:** Rather than continuing to assume that we borrow at the CFR moving forward, it is proposed that we formally recognise the level of reserves and cash balances, and that this is the basis of the Strategy being implemented to manage the cost of borrowing.

2.5. By building assumptions on the level of reserves (£17 million) and cash balances (£75 million) into the Council's loan charge model and taking account of the borrowing for the Service Concessions (£88 million), there is actually a net reduction in the anticipated borrowing requirement of £4million.

2.6. A prudent estimate of reserve balances going forward is that core reserves of £13 million for General Fund and £4 million for HRA can be used in lieu of borrowing. In addition to this, it is estimated that other reserves of £60 million will be available in 2022/2023, but that these will decrease by £10 million per annum from 2023/2024. This is based on the profile of use moving forward.

2.7. Average cash balances over the last three financial year ends have been £75.526 million, and so an estimate of £75 million has now been assumed in 2022/2023 and has been built into the Council's strategy for loan charges.

2.8. **Impact on Borrowing Requirements:** Table 2 shows the impact of the strategy on borrowing requirements in the medium term, to 2032/2033. It takes the original borrowing, and builds in the borrowing for service concessions before building in assumptions for reserves and cash balances.

Table 2: Revised Borrowing Requirement

Year	Borrowing Requirement					
	Original (£m)	Service Concessions (£m)	Use of Reserves (£m)	Cash Balances (£m)	**Revised** (£m)	Movement (£m)
2022/2023	**185.140**	0.000	(77.000)	(75.000)	**33.140**	(152.000)
2023/2024	**46.312**	14.400	10.000	0.000	**70.712**	24.400
2024/2025	**38.282**	31.500	10.000	0.000	**79.782**	41.500
2025/2026	**96.216**	18.100	10.000	0.000	**124.316**	28.100
2026/2027	**38.754**	4.000	10.000	0.000	**52.754**	14.000
2027/2028	**35.713**	4.000	10.000	0.000	**49.713**	14.000
2028/2029	**29.566**	4.000	10.000	0.000	**43.566**	14.000
2029/2030	**30.012**	4.000	0.000	0.000	**34.012**	4.000
2030/2031	**60.085**	4.000	0.000	0.000	**64.085**	4.000
2031/2032	**32.486**	4.000	0.000	0.000	**36.486**	4.000
2032/2033	**0.000**	0.000	0.000	0.000	**0.000**	0.000
Total	**592.566**	88.000	(17.000)	(75.000)	**588.566**	(4.000)

2.9. Table 2 shows that by using reserves and taking recognition of reserves and cash balances, the Council can reduce its borrowing requirement by £92.000 million in the medium term and by doing so lower its forecasted interest charges.

2.10. **Impact on Interest Costs:** By taking detailed account of our levels of reserves and cash balances, and the resultant impact on borrowing patterns across years (as illustrated in Table 2), there is an impact on the cost of interest incurred by the Council.

2.11. Table 3 shows the anticipated loan charges over the next 18 years in comparison to the available budget. It shows that in the early years, the profile of loan charges will generate an underspend in the years from 2022/2023 to 2025/2026. These underspends will require to be set aside to manage anticipated overspends in the years 2026/2027 to 2031/2032.

Table 3: Comparison of Loan Charges to Budget

Year	Loan Charges £m	Budget £m	(Over) / Underspend £m	Cumulative (Over) / Underspend £m
2022/2023	33.279	35.261	1.982	1.982
2023/2024	34.160	37.918	3.758	5.740
2024/2025	37.544	39.833	2.289	8.029
2025/2026	49.429	49.787	0.358	8.387
2026/2027	56.212	54.342	(1.870)	6.517
2027/2028	56.346	54.342	(2.004)	4.513
2028/2029	56.667	54.342	(2.325)	2.188
2029/2030	56.067	54.342	(1.725)	0.463
2030/2031	55.452	54.342	(1.110)	(0.647)
2031/2032	54.521	54.342	(0.179)	(0.826)
2032/2033	53.780	54.342	0.562	(0.264)
2033/2034	53.545	54.342	0.797	0.533
2034/2035	53.534	54.342	0.808	1.341
2035/2036	53.257	54.342	1.085	2.426
2036/2037	52.787	54.342	1.555	3.981
2037/2038	52.278	54.283	2.005	5.986
2038/2039	52.394	54.283	1.889	7.875
2039/2040	51.386	54.283	2.897	10.772

Note: The Loan Charges Budget for years 2022/2023 to 2025/2026 have been adjusted to reflect the impact of the Loans Fund Review (agreed June 2020). Details are provided in Appendix 3.

2.12. In short, this means that the cost of the borrowing required as a result of utilising funds generated through implementing Service Concessions can be managed without having to add anything into the loan charges budget.

2.13. It should be noted that if we did not implement the Service Concession guidance then the approach detailed in this appendix that takes account of reserves and cash balances to reduce the borrowing requirement could be used to deliver savings for the Council. However, it would not deliver the retrospective benefit of £64 million achieved through implementing the revised Service Concession guidance.

3. Summary

3.1. Revised guidance on service concession arrangements allows the Council to better align the debt repayments to the life of the asset. In order to use the benefit arising from the application of the revised guidance for service concession arrangements, the expenditure has to be funded. Borrowing for this will result in interest costs. (Sections 1.1 to 1.4).

3.2. In order to manage the interest costs, a strategy has been developed that uses the reserves and cash balances that are available to the Council to reduce its borrowing requirement. (Sections 2.1 to 2.9).

3.3. By doing so there is an impact on the interest costs incurred by the Council which results in underspends in loan charges over the years 2022/2023 to 2025/2026 which can be set aside to manage anticipated overspends in the years 2026/2027 to 2031/2032. This allows the cost of the borrowing for service concessions to be managed without having to add anything in to the loan charge budget (Sections 2.10 to 2.12) and shows that the strategy is affordable, sustainable and prudent.

3.4. Finally, it is noted that the approach detailed in this appendix could be used (out with the service concession approach) to deliver savings for the Council. However it would not bring the £64 million retrospective benefit that implementing the revised service concession guidance delivers (Section 2.13)

Loan Charges Budget – Movement Following Loans Fund Review Adjustments

Following the implementation of the Loans Fund Review (agreed by Executive Committee in June 2020), a retrospective benefit was realised. This benefit was realised through a reduction in Loan Charges in the years 2020/2021 to 2025/2026.

At the start of each year, the unrequired Loan Charges budget is moved to the Council's Corporate Items Budget Line, with the resultant underspend taken to Reserves at each year end.

To reflect this, the original Loan Charges budgets for the years 2022/2023 to 2025/2026 (in the table below) are reduced by the Transfers to Corporate Items/Reserves, to give a revised Loan Charges budget for those years.

This is the budget that the projected Loan Charges should be compared to after the implementation of the Service Concessions guidance. This is illustrated in Table 1.

Table 1: Loan Charges versus Revised Budget (after Loans Fund Review transfers)

Year	**Loan Charges £m**	Original Loan Charges Budget* £m	Reduction to Reflect Transfer to Corporate Items / Reserves £m	**Revised Loan Charges Budget £m**	(Over) / Underspend £m	Cumulative (Over) / Underspend £m
2022/2023	**33.279**	51.158	(15.897)	**35.261**	1.982	1.982
2023/2024	**34.160**	53.129	(15.211)	**37.918**	3.758	5.740
2024/2025	**37.544**	54.142	(14.309)	**39.833**	2.289	8.029
2025/2026	**49.429**	54.342	(4.555)	**49.787**	0.358	8.387
2026/2027	**56.212**	54.342	-	**54.342**	(1.870)	6.517
2027/2028	**56.346**	54.342	-	**54.342**	(2.004)	4.513
2028/2029	**56.667**	54.342	-	**54.342**	(2.325)	2.188
2029/2030	**56.067**	54.342	-	**54.342**	(1.725)	0.463
2030/2031	**55.452**	54.342	-	**54.342**	(1.110)	(0.647)
2031/2032	**54.521**	54.342	-	**54.342**	(0.179)	(0.826)
2032/2033	**53.780**	54.342	-	**54.342**	0.562	(0.264)
2033/2034	**53.545**	54.342	-	**54.342**	0.797	0.533
2034/2035	**53.534**	54.342	-	**54.342**	0.808	1.341
2035/2036	**53.257**	54.342	-	**54.342**	1.085	2.426
2036/2037	**52.787**	54.342	-	**54.342**	1.555	3.981
2037/2038	**52.278**	54.283	-	**54.283**	2.005	5.986
2038/2039	**52.394**	54.283	-	**54.283**	1.889	7.875
2039/2040	**51.386**	54.283	-	**54.283**	2.897	10.772

* *The original Loan Charges Budgets for 2022/2023 and 2023/2024 reflect the temporary reduction for in-year savings, agreed as part of the Budget Strategy.*