

NOTES TO THE ANNUAL ACCOUNTS

STATEMENT 8

Finance Leases (continued)

Assets acquired under finance leases have been capitalised together with a liability to pay outstanding rentals. Payments have been apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

Employee Benefits

A charge is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements earned by employees, but not taken before the year end, which employees can carry forward into the next financial year. The charge is made at the remuneration rates applicable in the following financial year and is required, under statute, to be reversed out of the General Fund Balance by a credit to the Employee Statutory Adjustment Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by an officer, in agreement with the council, to terminate their employment before the normal retirement date, or an officer's decision to accept voluntary severance. The costs are charged on an accruals basis to the Other Services line in the Comprehensive Income and Expenditure Statement. Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund or pensioners and any such amounts payable but unpaid at the year-end.

Public Private Partnership (PPP)**Design, Build, Finance and Maintain (DBFM)**

The treatment of PPP and DBFM contracts, under International Financing Reporting Standards (IFRS) looks at aspects of control of an asset, such as specifying services and the price paid for these services. The PPP and DBFM schools are recognised as property assets, with recognition of a liability for the financing of these assets. The unitary charge paid to the contractor is allocated between operating costs, finance lease principal and interest, and any capitalised lifecycle costs.

Service Concessions

The Scottish Government considered fiscal flexibilities for local authorities to help mitigate the costs associated with Covid-19 recovery. One of these flexibilities was a change to accounting treatment for existing service concession arrangements. Following the publication of the Scottish Government's Resource Spending Review in May 2022, the Cabinet Secretary for Finance and the Economy wrote to councils confirming that the statutory guidance for service concession arrangements, leases and similar arrangements would be updated to allow councils to recognise principal debt repayments over asset life and that this could be applied retrospectively for existing service concession arrangements.

Finance Circular 10/2022 allows councils to apply flexibility to accounting treatment for service concession arrangements in place prior to 1 April 2022.

Where statutory adjustments are aligned to asset life, the Finance Circular allows two options, reprofiling principal in equal instalments or using the annuity method. The Council agreed on 24 January 2023 that the annuity method be used, as it better reflects the consumption of an asset over its useful life as it is not consumed on equal instalments as maintenance and planned improvements tend to increase useful life in later years. The calculation of the revised repayment charges using an asset life of 50 years on an annuity basis was compared to current charges due over the contract life and resulted in a retrospective adjustment of £27.603 million in 2022/23 and an in year adjustment of £3.277 million in 2023/24.

This does not change what the council pays each year, it is simply a change to accounting transactions related to these assets. The existing contractual term for PPP and DBFM will remain, with no increase in the period over which the council pays the contractor. It does not release any cash (the amount paid to the contractor is unchanged) however it does result in an increase in the council's General Fund Reserve balance due to changes in accounting treatment for usable and unusable reserves.

Given the magnitude of the financial pressures facing the council, representing the most severe financial position ever faced by the council, Council Executive agreed on 6 December 2022 that the retrospective adjustment should be earmarked for the purposes of supporting the continued sustainability of the revenue budget for 2023/24 to 2027/28.

The reprofiling of debt liability repayments increases the council's financing requirement (CFR), however this will reduce as repayments are made. The service concession flexibility has been assessed to be prudent, affordable and sustainable within the parameters of the council's revenue, capital and treasury management plans.

Operating Leases

Current annual operating lease rentals have been charged to revenue.

Non-Domestic Rates (NDR)

Local authorities act as the agent of the Government when collecting NDR. The Code therefore requires local authorities not to recognise NDR debtors in their balance sheets but to instead recognise a creditor or debtor for cash collected from NDR debtors as agent of the Government but not paid or overpaid to the Government.

Pension Costs

The council participates in two separate pension schemes which provide members with defined benefits related to pay and service and are as follows: -

Teachers: This is an unfunded scheme administered by the Scottish Government. Under the pensions accounting standard IAS 19 - 'Retirement Benefits' this scheme is treated as a defined contribution scheme as it does not allow the identification of liabilities consistently and reliably between participant authorities. The pension cost charged to the Accounts is the contribution rate set by HM Treasury on the basis of a notional fund.