

## Appendix 4 – Capital Affordability Assessment

Starting with an update of the 2017/18 position, the HRA business plan has been projected forward over a 30 year period (i.e. 2017/18 to 2046/47), with particular emphasis on the following:

- Potential future rent levels
- Existing loan charges commitments (unavoidable costs);
- Estimated levels of HRA capital expenditure for each year; and
- Estimated levels of borrowing.

This has involved estimates and assumptions that will change over time, but which are considered reasonable and robust based on known information at this time. A summary of the assumptions made is provided late in this appendix.

### AFFORDABILITY ASSESSMENT OUTCOME

The following table summarises the key outcomes from the affordability assessment for the 4 forward years of the financial plan, as well as snapshots at 5 years intervals thereafter.

	18/19 £m	19/20 £m	20/21 £m	21/22 £m	26/27 £m	31/32 £m	36/37 £m	41/42 £m	46/47 £m
Capital Expenditure	15.338	27.464	25.003	22.477	10.813	11.638	13.104	16.302	19,176
Estimated Borrowing	4.996	18.075	17.347	15.719	3.000	2.000	1.000	1.000	1.000
Affordability %	11%	13%	17%	21%	21%	20%	19%	17%	16%

The affordability % in the above table represents the ratio of projected loan charges costs to projected rental income in each year.

The affordability of the HRA capital plans is assessed against a parameter as set out in the assumptions section below. In line with those assumptions, the affordability % should not exceed 25%.

The assessment confirms that the affordability % is not breached in any of the 30 years of the assessment, but does reach the maximum of 25% in 1 year only (2023/24), but is less than 25% in all other years and can be seen to be on a reducing trend in the later years.

On the basis of the assessment therefore, the Head of Corporate Finance believes that the HRA business plan can be regarded as affordable, prudent and sustainable.

### ASSUMPTIONS

The following key assumptions have been made.

#### Loan Charges Costs

In line with previously approved parameters, the assessment is based on the presumption that overall loan charges costs should not exceed 25% of the projected rental income in any single year.

### Interest and Expenses Rates

Costs in respect of principal repayments for existing borrowing are known with certainty from the Council's fixed asset management system, however assumptions have to be made in respect of future interest and debt management expenses rates. Based on current interest rate expectations, it's considered that rates will rise very gradually over the first few years, but will rise more sharply in the later part of the assessment period. The following interest rates have therefore been assumed:

- 4.67% - 2017/18;
- 4.72% - 2018/19;
- 4.77% - 2019/20;
- 4.82% - 2020/21;
- 4.87% - 2021/22;
- 5.12% - 2022/23 to 2026/27;
- 5.37% - 2027/28 to 2031/32;
- 5.62% - 2032/33 to 2036/37; and
- 5.87% - 2037/38 for each year thereafter.

For context, the actual interest rate for 2016/17 was 4.44%.

A rate of 0.08% has been assumed in each year for debt management expenses based on recent history.

### Capital Expenditure

The draft financial plan 2017/18 to 2020/21 (per Appendix 3 to this report) has been used in respect of the early years of the affordability assessment. Thereafter the following levels of future capital expenditure have been assumed for the purposes of this assessment:

- £12.000 million per annum – 2022/23 to 2024/25; and
- £13.800 million per annum – average for each year thereafter.

These spend levels reflect the additional capital investment agreed at last year's rent setting meeting as well as the increased capital investment proposals from this report. These may of course require to be revisited over time to take account of the future actual positions in respect of the assumptions made in this assessment.

### Capital Receipts

With the removal of Right to Buy from 1 August 2016, future capital receipts will be minimal. As noted in the monitoring report also on the agenda of this meeting (report 40/18 refers), accumulated capital receipts balances are to be used in the funding of the current year's capital programme and receipts generated in the current year are to be used in funding next year's capital programme. The following receipts assumptions have therefore been made in terms of this affordability assessment:

- 2017/18 - £2.260 million;
- 2018/19 - £1.277 million; and
- Zero thereafter.

### Other Funding

Other funding has only been included where it is already confirmed or where conditional approval has been received (e.g. Scottish Government Affordable Housing Grant or Affordable Housing Revenue Account).

Should any additional “other” funding be secured into the future, this will either be utilised to reduce borrowing or to enhance the capital programme as appropriate, taking on board updated long term affordability assessments, capital requirements or grant conditions.

#### Capital From Current Revenue (CFCR)

The HRA revenue budget provides for a significant level of resources each year for funding of capital expenditure directly from revenue resources – known as capital from current revenue or CFCR. The following average levels of CFCR have been assumed for the purposes of this affordability assessment:

- £7.400 million per annum – 2017/18 to 2021/22
- £6.100 million per annum – 2022/23 to 2024/25; and
- £12.200 million per annum – average for each year thereafter.

Inclusion of such sums in the capital expenditure funding package allows for the prudent management of borrowing over the business plan period, ensuring that the HRA does not become overstretched by over borrowing.

#### New Borrowing

It is the level of new borrowing required to fund capital expenditure which determines future commitments in relation to loan charges costs.

The affordability assessment therefore estimates the level of new borrowing required in each year after taking into account all of the other assumptions about capital expenditure, capital funding sources, etc. and this in turn has been used to calculate estimated loan charges costs into the future using the interest and expenses rates assumed above. The following average levels of borrowing have been assumed for the purposes of this affordability assessment:

- £14.100 million per annum – 2017/18 to 2021/22
- £5.600 million per annum – 2022/23 to 2024/25; and
- £1.500 million per annum – average for each year thereafter.

#### Expenditure Slippage

Slippage in the capital programme does not represent a capital funding source but merely a change in the phasing of when expenditure is incurred. As such no slippage assumptions have been included in this affordability assessment.