Appendix 3 to Report 64/18

Affordability Assessment Key Assumptions

The affordability assessment as described at sections 7 and 8 of the body of the report is dependent on a number of key assumptions and these are summarised below:-

1 Loan Charges Grant

The levels of loan charges support grant are known for 2018/19 based on the latest Spending Review. This grant however only supports new borrowing taken up to and including financial year 2010/11.

As a result, loan charges support grant ends during the affordability assessment period gradually reducing from £9.763 million in 2018/19 to zero in 2035/36.

2 Loan Charges Budget

Summarised below is the loan charges budget for 2018/19, followed by the loan charges budget assumptions for the years thereafter.

2018/19 Financial Year
Per Appendix 1 to the Council Tax Setting Report (report 63/18 refers), the loan charges budget for 2018/19 amounts to £13.909 million, made up as follows:

	£m
Loan charges support grant	9.011
Additional loan charges grant (one-off)	0.752
General Revenue Grant applied	4.078
General Fund Loan Charges Budget	**13.841**
Other Housing – Home Loans	0.068
Total Loan Charges Budget (per R63/18)	13.909

2019/20 Financial Year and Beyond
For the financial years after the conclusion of the 2018/19 Spending Review period, it has been assumed that the base General Revenue Grant applied to the loan charges budget will increase by £0.250 million annually over the remainder of the assessment period. This partially offsets the reducing level of loan charges grant, whilst allowing a reasonable core capital programme to be maintained over the whole period of the assessment.

At this time, this is considered manageable within the annual budget process in future years, although this is not without consequence as a lower level of resources will be available to meet other revenue costs such as staff costs.

It could however prove challenging to maintain this level of annual increase and so the sustainability of this increase will be reviewed on an annual basis.

Loan Charges Budget Summary
The approach and assumptions set out above results in an annual reduction in the loan charges budget until 2035/36 (reflecting the reducing nature of the loan charges grant) and a £0.250 million rise per annum thereafter to the end of the assessment period.

It should be noted however that even if the Council incurred no new borrowing beyond the period of the Financial Plan (i.e. from 2022/23 onwards), an annual increase in General Revenue Grant applied averaging some £0.046 million per annum would still be required over the period 2018/19 to 2042/43. This would be necessary to meet the overall projected loan charges costs of borrowing already undertaken and projected to be undertaken up to and including 2021/22 (i.e. already unavoidable costs).
A core capital programme would still exist, however it would have to be exactly matched to projected General Capital Grant and projected capital receipts levels, giving a projected core capital programme of £9.750 million.

This is considered impractical and unrealistic as it assumes that no expenditure slippage would ever occur on the capital programme.

It is considered appropriate therefore that an annual uplift to the General Revenue Grant applied in excess of the basic £0.046 million noted above should be provided in order to ensure a sufficient core capital programme level to meet basic capital spend needs and to allow some flexibility to deal with slippage issues as they arise.

The net effect of the assumptions and detail set out in this report would allow a future core capital programme value to be assumed of up to £14.000 million per annum.

Members should therefore note that as a consequence of previous spending and borrowing decisions over the life of Angus Council and the unavoidable need for further capital investment both now and in the future, the Council will on a year on year basis, need to continue to commit a significant portion of revenue resources to loan charges.

On the basis of all of the above assumptions, the loan charges budget for each year of the assessment is considered to represent the maximum level of loan charges costs that can be incurred and the affordability position is therefore based on the premise of not breaching the assumed budget level in future years.

3 Existing and Future Loan Charges Commitments

The cost of principal repayments on existing commitments is known with certainty from the Council's fixed asset management system.

Assumptions have to be made however in respect of future interest and debt management expenses rates. Based on current interest rate expectations, it's considered that interest rates will rise very gradually over the first few years, but will rise more sharply in the later part of the 25 year period. The interest rates assumed are detailed on the face of Appendix 1.

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

The rates assumed are considered reasonable and prudent based on current information.

In respect of future loan charges commitments, only the projected loan charges arising from the proposals in the provisional 2017/2022 Financial Plan (report 62/18 refers) and projected future years' core capital budget levels have been included within this affordability assessment.

Should any proposals be made and agreed at the budget setting meeting which result in increased loan charges, these will require to be covered by transferring additional revenue budget resources from elsewhere to augment the corporate loan charges budgets assumed in these affordability projections.

4 Special Repayment Strategy

The affordability projections allow for continued special repayments of principal (debt) in line with paragraph 5.2 in the body of the report. In this regard, the updated long term affordability review assumes that special repayments of £4.442 million are available over the 5 years of the Financial Plan (2017/18 to 2021/22 inclusive).

These projections are based on such special repayments being available and affordable within the assumed maximum loan charges budget each year.

Some additional special repayments may be possible in some years thereafter based on budget headroom projected to be available, but the benefit of these in reducing loan charges has not been reflected in the projections at this stage as a prudence measure and given the many variables involved.

5 Financially Significant Projects / Risks

The provisional 2017/2022 Financial Plan (report 62/18 refers) was used as the starting point for making the long term affordability projections described in this report. It has however also been necessary to make some specific assumptions about specific projects, contingency and oversubscription as follows:

Agile and Locality Hub – Capital Receipts
£1.007 million of capital receipts are assumed as part of funding the Agile Angus / Estates Review / Locality Hubs project.

There is risk to the achievement of this level of receipts as a result of:

- increased approaches from community groups pursuing asset transfers;
- increased interest from the Housing Service in sites for new affordable housing provision; and
- depressed expectations around potential interest in surplus properties and therefore the potential sale value.

In mitigation of this risk, the PBSG previously agreed that in the event that the actual capital receipts levels achieved fall short of the budgeted position, the capital contingency can be applied to make up the shortfall.

Tay Cities Deal
It is expected that the proposals and projects contained in the Tay Cities Deal project will require some capital funding from Angus Council at some future point.

At this stage no specific allowances have been included within the provisional 2017/2022 Financial Plan, although it's possible that some existing projects may count in this regard.

It may therefore be necessary to revisit the content of the Financial Plan once the City Deal process is at a more advanced stage.

Arbroath Flood Strategy
This project assumes significant levels (£6.699 million) of government grant will be available towards the funding of the works.

Whilst the Government have confirmed that the Arbroath Flood scheme will receive capital grant funding, the overall final level of funding is still to be fully agreed. All Councils due to receive flood scheme funding have submitted updated costing estimates and these will be used to allocate the flooding component of the General Capital Grant to individual schemes. The £6.699 million shown in the Financial Plan represents the projected allocation to Angus Council.

This allocation of the overall flooding funding is however provisional until formal confirmation of the flood scheme, at which point the costs are considered fixed for grant purposes. Confirmation of the scheme may happen by Autumn 2018 and until then there is some risk that grant levels do not reach expectation with the result that the overall funding or scope of the project would need to be revisited.

School Investment Strategy
The recently presented school investment strategy (report 36/18 refers) includes various proposals with regard to addressing the needs of Angus schools over a 30 year period.

The report notes that addressing these needs will require additional capital investment that is not included in the proposed 2017/2022 financial plan and that the additional investment required will be assessed as individual proposals are developed. The report also notes that more major projects will require capital funding from both the Scottish Government and the Council.

As with the City Deal therefore, it may be necessary to revisit the content of the financial plan once more detail is available on the implications from the school investment strategy proposals.

Early Years Projects

A number of projects have been included in the 2017/2022 financial plan in respect of Early Years provision. These projects are dependent on specific Scottish Government capital grant and may therefore require to be revisited if the Council does not receive the anticipated levels of grant. Paragraph 6.5 in the body of the report also refers.

Contingency
An overall contingency of £5.379 million has been included both within the updated capital project priority list and this affordability assessment to allow flexibility to address unforeseen circumstances over the 5 year period of the 2017-2022 Financial Plan.

Oversubscription
The 2017/2022 Financial Plan has been prepared on the basis of not breaching the maximum oversubscription level of 10% as set out at paragraph 6.8 in the body of the report.

On the basis of the provisional Financial Plan the oversubscription level is £7.590 million (9.4%) per Appendix 2 and is therefore within the maximum level allowed.

For the purposes only of this affordability assessment however, it has been necessary to exclude the oversubscription amount from the projected new borrowing in order to reflect the true impact and comparison in respect of future loan charges budget levels.

This of course does not mean that the oversubscription simply goes away - it will still require to be managed over time.

6 Projects Funded Under Departmental Borrowing

The Council has undertaken a number of projects under a "prudential borrowing" approach. This approach involves the loan charges costs arising from the expenditure on such projects being met from income generated or from departmental revenue budgets rather than the corporate loan charges budget.

The removal of supported borrowing effectively means all borrowing is now "prudential borrowing", however a distinction will continue to be made between departmental borrowing (loan charges funded from departmental revenue budgets) and corporate borrowing (loan charges funded from corporate loan charges budget).

For the purposes of this affordability assessment, departmental borrowing projects are excluded as the loan charges are not covered by the corporate loan charges budget.

7 Capital Grants & Other External Contributions

General Capital Grant is one of the Council's principal sources of funding capital expenditure (new borrowing being the other main source).

The affordability projections therefore make a number of important assumptions in relation to capital grants as follows:

- unless a capital grant is specifically ear-marked as being ring-fenced by the Scottish Government (e.g. Cycling, Walking & Safer Streets), all capital grant will be used to fund the overall capital programme;
- General Capital Grant is not netted off specific projects within the Financial Plan, except where these are non-enhancing;
- the balance of General Capital Grant is offset against the total net expenditure position of the Financial Plan; and
- the assumed base capital grant level for 2019/20 onwards has been maintained in line with last year's affordability assessment at £10.0 million per annum, albeit that the buying power of that grant would be eroded over time through the impact of inflation.

The balance of capital grant assumed for each year of the affordability assessment is detailed on the face of Appendix 1, although there is clearly some risk that future capital grants may not reach the assumed levels or may have a different profile.

Other external contributions have only been taken into account where they are already confirmed and identified within the 2017/2022 Financial Plan.

8 Direct contributions from the Revenue Budget

No contributions from the revenue budget have been assumed for 2018/19 or any future years.

9 Capital Receipts

Predicting capital receipts levels and when the cash will be received is extremely difficult.

Notwithstanding, the affordability assessment assumes that £0.800 million of non-ring-fenced capital receipts can be achieved over the Financial Plan period. These are assumed to be additional to the receipts mentioned above at part 5 of this Appendix.

For the years beyond the current Financial Plan period, it has been assumed that there will be much fewer surplus property assets and that capital receipts will be difficult to generate. Accordingly from 2021/22 onwards capital receipts have only been assumed at a level of £0.100 million per annum.

In the event that capital receipts exceed these estimated levels this will reduce the Council's need to borrow and therefore create some future headroom within the loan charges budget.

10 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 projections therefore estimate the level of new borrowing required after taking into account all of the other assumptions set out above and this in turn has been used to calculate estimated loan charges costs into the future.

The resulting estimated new borrowing for each year of the affordability assessment is detailed on the face Appendix 1.

11 Expenditure Slippage

Whilst it is recognised that there is potential for expenditure slippage to occur, there is no slippage allowance built into the 2017/22 Financial Plan and consequently no adjustment has been necessary in this affordability assessment.

12 Inflation

With the exception of the period of the Financial Plan (which is stated on an outturn basis), the affordability assessment does not make specific allowance for the effects of inflation, on the basis that this is highly unpredictable over time.

Whilst this will mean that the true purchasing power of the assumed capital expenditure total into future years will gradually be eroded, members are asked to bear in mind that inflation has also been ignored in relation to capital receipts and capital grants over the period of the assessment.

The affordability assessment therefore ignores inflation on both the expenditure and funding side on the basis that its effects are assumed to be broadly neutral over the period in question.