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 2019/20 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 £8.737 million in 2019/20 to zero in 2035/36.

2 Loan Charges Budget

Summarised below is the loan charges budget for 2019/20, followed by the loan charges budget assumptions for the years thereafter.

2019/20 Financial Year
A review of the 2019/20 loan charges budget was undertaken as part of the revenue and capital budget finalisation, following which it is proposed that a £500,000 reduction to the base budget should be made. This is to ease the ongoing pressure on the revenue budget and contribute towards the 2019/20 revenue savings target. Such a course of action does create peaks and troughs over the 25 year affordability assessment, as demonstrated in the 'Budget Headroom / (Issue)' line within Appendix 1. This will require to be managed over the period by a combination of the continued adoption of the special repayment strategy, review of levels of new borrowing on an ongoing basis and, where possible, balancing out the budget issues with any available budget headroom.

Per Appendix 1 to the Council Tax Setting Report (report 61/19 refers), the General Fund loan charges budget for 2019/20 amounts to £13.198 million, made up as follows:

	£m
Loan charges support grant	8.737
General Revenue Grant applied	4.461
General Fund Loan Charges Budget	**13.198**
Other Housing – Home Loans	0.068
Total Loan Charges Budge	13.266

2020/21 Financial Year and Beyond
For the financial years after the conclusion of the 2019/20 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 (and taking into account the £500,000 budget re-base in 2019/20), this level of annual uplift 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. 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 2023/24 onwards), an annual increase in General Revenue Grant applied averaging some £0.025 million per annum would still be required over the period 2019/20 to 2043/44. 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 2022/23 (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 £0.025 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 £15.000 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 is considered that interest rates will rise very gradually over the first few years, but will rise more sharply in the latter 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 2018/2023 Financial Plan (report 59/19 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 £4.804 million are available over the 5 years of the Financial Plan (2018/19 to 2022/23 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 2018/2023 Financial Plan (report 59/19 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. Other than the Montrose to A90 Link Road which is reflected in later years, at present no specific allowances are included within departmental capital programmes in the 5 funded years of the provisional 2018/2023 Financial Plan (although it is possible that some existing projects may count in this regard).

The PBSG therefore agreed that a provision of £4.5 million is built into the long term affordability and capital project priority model for any Tay Cities Deal projects that may require a financial contribution from the Council. The £4.5 million is unlikely to be sufficient but provides a starting point from which to take forward City Deal projects once more information on Government funding, phasing and criteria are available.

Arbroath Flood Strategy
Whilst the Scottish Government have confirmed that the Arbroath Flood Strategy will receive capital grant funding, the level and phasing of future allocations is largely unknown as the Government only allocate this on a year by year basis as part of the overall general capital grant settlement. All Councils due to receive flood scheme funding periodically submit updated costing estimates and these are used to allocate the flooding component of the General Capital Grant to individual schemes.

Whilst it was confirmed that the Council would receive £1.726 million in 2019/20 for Arbroath Flood Strategy, the financial plan assumes a further £5.311 million of government grant will be available in 2020/21. This will not be confirmed however until details of the 2020/21 Finance Settlement are released towards the close of 2019.

School Investment Strategy (Angus Schools for the Future)
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 significant additional capital investment, however this is not allowed for in the 5 years of the 2018/2023 financial plan. The two projects currently of highest profile in this regard are the Western Gateway collaboration with Dundee City Council and Perth & Kinross Council and the replacement of Monifieth High School.

It will therefore be necessary to revisit the content of the financial plan once more detail is available both on the implications of these particular projects and from the wider school investment strategy proposals.

Contingency
An overall general capital contingency of £3.239 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 2018/2023 Financial Plan.

Oversubscription
The 2018/2023 Financial Plan has been prepared on the basis of not breaching the maximum oversubscription level of 10% as set out at paragraph 6.7 in the body of the report.

On the basis of the provisional Financial Plan the oversubscription level is £7.917 million (10.0%) 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 and 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 (non-capital) projects;
- 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 2020/21 to 2022/23 has been set at £11.0 million per annum, with 2023/24 onwards being maintained in line with last year’s affordability assessment at £10.0 million per annum. The buying power of that grant would however 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 2018/2023 Financial Plan.

8 Direct Contributions from the Revenue Budget

No contributions from the revenue budget have been assumed for 2019/20 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 £0.706 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 2022/23 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 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.