CAPITAL AFFORDABILITY ASSESSMENT

Starting with an update of the 2019/20 position, the HRA Business Plan has been projected forward over a 30 year period (i.e. 2019/20 to 2048/49), 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 later in this appendix.

AFFORDABILITY ASSESSMENT OUTCOME

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

	19/20 £m	20/21 £m	21/22 £m	22/23 £m	23/24 £m	28/29 £m	33/34 £m	38/39 £m	43/44 £m	48/49 £m
Capital Expenditure	14.314	19.861	17.715	16.397	17.598	11.200	13.155	14.106	16.536	19.357
Estimated Borrowing	1.887	10.779	9.369	8.740	10.562	3.000	3.000	2.000	2.000	2.000
Affordability %	9%	11%	13%	15%	18%	17%	15%	14%	13%	13%

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 plan is assessed against a parameter, as set out in the assumptions section below. In line with those assumptions, it is currently our view that the affordability % should not exceed 25%. However, if there are particular circumstances in which it may be desirable to increase borrowing to achieve specific business objectives, this level will be reviewed.

The assessment of the current position confirms that the affordability % is not breached in any of the 30 years of the assessment.

On the basis of the assessment therefore, the Director of Finance believes that the HRA Business Plan can be regarded as affordable, prudent and sustainable.

ASSUMPTIONS

The following key assumptions have been made.

<u>Loan Charges Costs</u>
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.

<u>Interest and Expenses Rates</u>
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:

- 4.30% - 2019/20 to 2021/22;
- 4.40% - 2022/23;
- 4.50% - 2023/24 to 2027/28;
- 4.75% - 2028/29 to 2032/33;
- 5.00% - 2033/34 to 2037/38; and
- 5.25% - 2038/39 for each year thereafter.

For context, the actual interest rate for 2018/19 was 4.40%.

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 2019/20 to 2023/24 (per Appendix 3 to this report) has been used in respect of the early years of the affordability assessment. Thereafter, the following average levels of future capital expenditure have been assumed for the purposes of this assessment:

- £13.168 million per annum – 2024/25 to 2027/28; and
- £14.736 million per annum – average for each year thereafter.

These average spend levels reflect the additional capital investment agreed at last year's rent setting meeting as well as the capital investment proposals per 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

As noted in the monitoring report also on the agenda of this meeting (section 8 of report XXX/20 refers), accumulated capital receipts balances (£1.475 million at 31 March 2019) are to be used in the funding of the current year's capital programme.

As also noted in the monitoring report, capital receipts in the current financial year are projected to be relatively minimal and it is expected that capital receipts in future years will also be relatively minimal. It is considered prudent therefore for the purposes of this affordability assessment to assume no capital receipts for future years. Any receipts that are received in future years will be applied to reduce any borrowing requirement in the following year.

The following receipts assumptions have therefore been made in terms of this affordability assessment:

- 2019/20 - £1.475 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 Financed 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 Financed from Current Revenue. The following average levels of CFCR have been assumed for the purposes of this affordability assessment:

- £7.789 million per annum – 2019/20 to 2023/24
- £7.618 million per annum – 2024/25 to 2027/28; and
- £12.374 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 HRA 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 account of all 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:

- £8.267 million per annum –2019/20 to 2023/24
- £5.250 million per annum – 2024/25 to 2027/28; and
- £2.333 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.