**Agenda Item No 7b**
**Appendix 3**

**Affordability Assessment Key Assumptions**

The affordability assessment as described at sections 8 and 9 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 2020/21 based on the latest grant announcements. 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 £8.464 million in 2020/21 to zero in 2035/36.

2 Loan Charges Budget

Summarised below is the loan charges budget for 2020/21, followed by the loan charges budget assumptions for the years thereafter.

*2020/21 Financial Year*
Per Appendix 1 to the Council Tax Setting Report (report 88/20 refers), the General Fund loan charges budget for 2020/21 amounts to £13.173 million, made up as follows:

| | £m |
|---|---|
| Loan charges support grant | 8.464 |
| General Revenue Grant applied | 4.709 |
| **General Fund Loan Charges Budget** | **13.173** |
| Other Housing – Home Loans | 0.068 |
| Total Loan Charges Budget | 13.241 |

*2021/22 Financial Year and Beyond*
For the financial years after the conclusion of the 2020/21 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 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 capital plan (i.e. from 2024/25 onwards), an annual increase in General Revenue Grant applied averaging some £0.032 million per annum would still be required over the period 2020/21 to 2044/45. 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 2023/24 (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 £12.250 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 £0.250 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 £17.500 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 2019/2024 Capital Plan (report 84/20 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 6.2 in the body of the report. In this regard, the updated long term affordability review assumes that special repayments of £4.227 million are available over the 5 years of the capital plan (2019/20 to 2023/24 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 2019/2024 Capital Plan (report 84/20 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*
The proposals and projects contained in the wider Tay Cities Deal programme will require a significant level of capital funding from Angus Council in the near future. Other than Brechin Business Park and the Montrose to A90 Link Road (with the latter only being reflected in later years), there are no other specific allowances included within departmental capital programmes in the 5 funded years of the provisional 2019/2024 Capital Plan.

The PBSG therefore agreed to increase the existing provision of £4.5 million that is built into the long term affordability and capital project priority model to £6.0 million for any Tay Cities Deal projects that may require a financial contribution from the Council. Despite this increase the £6.0 million is still unlikely to be sufficient but does provide a base from which to take forward City Deal projects.

*Montrose Coast Protection – Preliminary Works*
The £4.5 million (gross) provision within the 5 years of the capital plan for advance works to support the retention of the dune system along the Montrose coast is based on early costing and timing estimates which will require to be refined as the project is developed. Whilst a future allocation of flood grant (based on 80% of eligible costs) may be available for this project from the Scottish Government (as has been built into the estimates in the capital plan, thereby reducing the cost to be met from Council resources to £0.8 million) there is no guarantee that such funding will be forthcoming. The Scottish Government sets aside £42.0m annually to support flood and coastal protection projects, however this is to cover the whole of Scotland and it may be that this is already fully committed for the coming years based on existing approved projects. There is therefore a risk attached to the proposed funding of this project which must be noted.

*Flood Risk Management*
A £15.0 million (gross) allowance for flood protection schemes identified for national appraisal and prioritisation as part of the 2022-28 SEPA Flood Risk Management Strategies and 2022-28 Local Flood Risk Management Plans (report 376/19 refers) has been reflected in 2023/24 and later years of the capital plan. As with the aforementioned Montrose Coast Protection however, this programme also assumes a significant level of flood grant (£12.0m) and is therefore accompanied by the same risk that such funding is not guaranteed.

*Angus Schools for the Future (Monifieth Cluster)*
An £45.0 million (gross) allowance has been provided for the Monifieth learning estate (including cluster primary schools) in 2023/24 and later years of the capital plan. A project of this scale is unaffordable without Scottish Government funding support however. The funding model for school estate investment is changing with the expectation that direct funding of capital works will

no longer be applicable. For the purposes of this assessment some £22.5 million of funding for costs which would otherwise fall to the Council to meet from its other resources has been assumed but this will require to be reviewed once the new school estate funding model is confirmed.

Officers have met with representatives of the Scottish Government and Scottish Futures Trust and presented proposals for the development and improvement of the learning estate across Angus. In line with the school estate priorities already approved by Council, officers are therefore progressing the detail of proposals for the Monifieth cluster, incorporating major investment to improve Monifieth High School and Mattocks and Liff Primary Schools. Reports will be provided to committee as both the project and funding prospects develop.

*Contingency*
An overall general capital contingency of £4.0 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 2019/2024 Capital Plan.

*Oversubscription*
The 2019/2024 Capital Plan has been prepared on the basis of not breaching the maximum oversubscription level of 10% as set out at paragraph 7.7 in the body of the report.

On the basis of the provisional Capital Plan the oversubscription level is £8.904 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 and Early Years Expansion), all capital grant will be used to fund the overall capital programme;
- General Capital Grant is not netted off specific projects within the capital 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 capital plan; and

- the assumed base capital grant level for 2021/22 onwards has been set at £12.5 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 2019/2024 Capital Plan.

8 Direct Contributions from the Revenue Budget or Capital Fund

No corporate contributions from the revenue budget or capital fund have been assumed for 2020/21 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 £1.1 million of non-ring-fenced capital receipts can be achieved over the capital 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 capital 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 2024/25 onwards capital receipts have been assumed at a level of £0.1 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 capital 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.