Appendix 3 to Report 60/23

Affordability Assessment Key Assumptions

The affordability assessment as described at sections 9 and 10 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 2023/24 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 £7.573 million in 2023/24 to zero in 2035/36.

2 Loan Charges Budget

Summarised below is the loan charges budget for 2023/24, followed by the loan charges budget assumptions for the years thereafter.

2023/24 Financial Year
The General Fund loan charges budget for 2023/24 as set out in Appendix 1 amounts to £11.038 million, made up as follows:

	£m
Loan charges support grant	7.573
General Revenue Grant applied	3.465
Total Loan Charges Budget	11.038

2023/24 Financial Year and Beyond
For the financial years after the conclusion of the 2022/23 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. From 2025/26 it is assumed that the base loan charges budget will rise by a further £1.661 million in order to accommodate the replacement of Monifieth High School. This also partially offsets the reducing level of loan charges grant, whilst allowing a minimal 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 2024/25 (reflecting the reducing nature of the loan charges grant). This budget increases in 2025/26 and then begins to reduce again until 2036/37 with the exception of 2 years where it increases slightly. From 2036/37 it increases by £0.250 million per annum until 2043/44, followed by further increases to the end of the assessment period. A further increase of £1.661 million to the base is also assumed in 2025/26 to accommodate Monifieth High School.

It should be noted however that even if the council incurred no new borrowing beyond the period of the capital plan (i.e. from 2027/28 onwards), as well as the aforementioned £1.661 million in 2025/26, an annual increase in general revenue grant applied averaging circa £0.120 million per annum would still be required over the period 2023/24 to 2047/48. 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 2026/27 (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 £10.750 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 £0.250 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 £14.000 million per annum up to and including 2033/34, rising to £14.500 million thereafter.

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 loan charges management records.

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 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 Financially Significant Projects / Risks

The provisional 2022/2027 Capital Plan included in the Service Revenue & Capital Budget Reports (reports 41/23 to 50/23 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:

Replacement of Monifieth High School (Angus Schools for the Future)

As reported in the body of the report at an estimated gross cost of £56.0 million, the replacement of Monifieth High School will be one of the largest in value that Angus Council has ever financed in terms of upfront capital cost.

The majority of the £56.0 million gross cost will be funded from borrowing, the impact of which will affect the revenue budget in the form of loan charges costs. Extra resource has been put into the loan charges budget to meet the borrowing costs for the school after taking account of the £40.4 million funding from the Learning Estate Investment Programme (LEIP).

For the purpose of assessing the long-term affordability of the capital plan, the additional £1.661million revenue resources has been added into the base loan charges budget in 2025/26. Whilst the value, timing and write off period associated with this will be refined as the project develops, what must be highlighted at this stage is that for the financial implications of this project to be prudent, affordable and sustainable, the loan charges budget will need increased considerably going forward.

The risks associated with this project are significant. The estimated capital cost of £56 million, whilst robust in its calculation, is just that – an estimate. Relatively modest increases in cost in percentage terms can equate to a considerable value on projects of this size, e.g. a 1% increase would require an additional £0.560 million to be financed whilst adding a further £0.030 million on average onto the loan charges every year. Furthermore, the revenue grant from the Scottish Government is outcome based – if the council does not meet the stated outcomes this can reduce the level of grant provided in any one year. And whilst this grant cannot be used to fund the upfront capital costs associated with the new build, it will be a vital component of the future operating costs and loan charges.

Agile and Locality Hub – Capital Receipts
Capital receipts totalling £1.315 million 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 – this is particularly relevant in a post-COVID work environment where the traditional office set-up may no longer be considered necessary and the supply of buildings on the market could far exceed demand.

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. A general provision of £8.750 million has been built into the capital plan and long-term affordability, alongside the Angus Rural Mobility Hub (£3.0 million). Given the scale of the Tay Cities Deal programme, the resources set aside are unlikely to be sufficient, although they do provide a base from with projects can be taken forward.

Montrose Coast Protection – Preliminary Works
The £4.953 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 £1.063 million) there is no guarantee that such funding will be forthcoming. The Scottish Government generally sets aside £42.0 million annually to support flood and coastal protection projects, however this is to cover the whole of Scotland. There is therefore a very higher level of risk attached to the proposed funding and deliverability of this project.

Flood Risk Management
A £32.6m (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 from 2023/24 onwards in the capital plan. As with the aforementioned Montrose Coast Protection however, this programme

also assumes a significant level of flood grant (£26.1m) and is therefore accompanied by the same risk that such funding is not guaranteed.

Arbroath Places for Everyone
Report 86/20 (presented to Angus Council on 27 February 2020) approved funding of £3.0 million from the council's capital budget towards the Arbroath Places for Everyone project. Estimated to cost just over £13.2 million, the report noted that after the application of Sustrans funding (£9.2 million) and the council's match funding (£3.0 million) a shortfall of £1.0 million existed. It was agreed that external funding would be sought to meet this shortfall and if this was not successful the required resources would be drawn down from the capital contingency.

The updated position continues to be in line with that reported in report 86/20, with officers still assessing how other active travel funding sources can be utilised to provide a match. The use of the capital contingency to meet the shortfall is therefore still a possibility.

Contingency
An overall general capital contingency of £5.700 million has been included both within the updated capital project priority list and this affordability assessment to allow flexibility to address cost increases to existing capital projects and other unforeseen circumstances over the 5-year period of the 2022/2027 Capital Plan.

Oversubscription
The 2022/2027 Capital Plan has been prepared on the basis of not breaching the maximum oversubscription policy level set by the Policy & Budget Strategy Group of 12.5% as set out at paragraph 7.6 in the body of the report.

On the basis of the provisional capital plan the oversubscription level is £14.116 million (12.5%) per Appendix 2 and is therefore within the maximum policy 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.

5 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.

6 Capital Grants and Other External Contributions

General capital grant from the Scottish Government 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 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 2024/25 onwards has been set at £10.2 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 2022/2027 Capital Plan.

7 Direct Contributions from the Revenue Budget or Capital Fund

£0.600 million of corporate contributions has been assumed for 2023/24 being a balance from the headroom in the corporate capital financing cost budget..

8 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 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 £0.100 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.

9 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.

10 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. With inflation levels currently higher than in recent years this assumption carries risk if inflation stays above the Bank of England’s target level of 2% for a prolonged period.