APPENDIX 4 TO REPORT NO 40/25

CAPITAL AFFORDABILITY ASSESSMENT

Starting with an update of the 2024/25 position, the HRA Business Plan has been projected forward over a 30-year period (i.e. 2024/25 to 2053/54), 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-year intervals thereafter.

	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	33/34 £m	38/39 £m	43/44 £m	48/49 £m	53/54 £m
Net Capital Expenditure	10.208	18.323	19.285	16.974	18.567	15.575	15.575	15.575	14.259	14.975
Estimated Borrowing	2.691	9.337	11.281	9.418	11.649	10.236	13.018	12.698	12.000	12.000
Affordability %	7%	8%	10%	11%	13%	17%	25%	25%	27%	27%

The affordability % in the above table represents the ratio of projected loan charges costs to projected rental income in each year. Guidance on the level of this percentage is given in the assumptions below.

The assessment of the current position based on all the assumptions set out below shows that the affordability percentage would breach in the latter part of the 30-year assessment.

The affordability percentage should not however be considered as a sole determinant of affordability in isolation of other relevant factors and additional detail in that regard is included in section 9 of the body of the report.

Considering all factors as set out in this appendix and section 9 of the body of the report, the Director of Finance is satisfied that the HRA Business Plan can be regarded as affordable, prudent and sustainable provided the strategic approach to future rent increases detailed in section 9 of the body of the report is sustained moving forward.

This affordability assessment will continue to be reviewed in full as part of each HRA rent and budget setting process.

ASSUMPTIONS

The following key assumptions have been made.

<u>Inflation</u>
Whilst it's difficult to predict future inflation levels, it has been assumed for the purposes of the affordability assessment that the Consumer Price Index (CPI) will be in line with the government's target of 2% for all years from 2026/27 onwards.

Rent Increases
For the purposes of the affordability assessment, it has been assumed that rents will rise at CPI + 1% from 2026/27 onwards for the period of the assessment. The effect of this is to assume a 3% rent rise for the remaining 29 years of the assessment.

Loan Charges Costs
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. This though is a guide and should not be considered as a sole determinant of affordability in isolation of other relevant factors.

Interest and Expenses Rates
Costs in respect of principal repayments for existing borrowing are known with certainty from the Council's fixed asset management system, however assumptions must be made in respect of future interest and debt management expenses rates. Based on current interest rate expectations, it's considered that rates will generally rise over the assessment period.

The following interest rates have been assumed:

- 4.10% - 2024/25;
- 3.54% - 2025/26;
- 4.15% - 2026/27;
- 4.10% - 2027/28;
- 4.35% - 2028/29 to 2032/33;
- 4.60% - 2033/34 to 2037/38; and
- 4.85% - 2038/39 for each year thereafter.

For context, the actual interest rate for 2023/24 was 4.104%.

A rate of 0.088% has been assumed in each year for debt management expenses based on recent history.

Capital Expenditure
The draft capital plan 2024/25 to 2028/29 (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:

- £17.897 million per annum – 2029/30 to 2033/34;
- £15.575 million per annum – 2034/35 to 2044/45; and
- £14.474 million per annum – average for each year thereafter.

These average spend levels reflect 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 sections 8 and 9 of the monitoring report also on the agenda of this meeting, capital receipts accumulated prior to 2024/25 (£0.185 million at 31 March 2024) are to be used in the funding of the 2024/25 capital programme.

As also noted in the monitoring report, capital receipts generated in the current financial year are projected to be £0.227 million and will be held in reserves to be utilised in funding the 2025/26 capital programme.

It is expected that capital receipts in future years will be relatively minimal. It is therefore considered prudent 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 financial year following the receipt.

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

- Receipts applied in 2024/25 - £0.185 million;
- Receipts applied in 2025/26 - £0.227 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:

- £6.614 million per annum – 2024/25 to 2028/29
- £5.624 million per annum – 2029/30 to 2033/34
- £3.332 million per annum – 2034/35 to 2044/45; and
- £2.474 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.

The above CFCR levels have been projected after allowing for the currently evident significant inflation affecting underlying costs and the significant levels of capital investment projected to be required to meet zero carbon targets. The position detailed above indicates that based on the current assumptions, there would be sufficient revenue resources to support the indicative capital spend levels.

This is though only possible by assuming a sustained approach of rent rises based on a CPI+ approach over the remaining 29-year period of the business plan with a minimum of 1.25% above CPI. Should there be a deviation away from this approach to lower levels of rent rises in future years then it is likely, all other assumptions being the same, that the business plan would need a significant review to assess and ensure its affordability and sustainability. Further detail is included at section 9 of the body of the report.

New Borrowing
It is the level of new borrowing required to fund capital expenditure which determines future revenue 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:

- £8.875 million per annum –2024/25 to 2028/29
- £12.262 million per annum – 2029/30 to 2033/34
- £12.243 million per annum – 2034/35 to 2044/45; and
- £12.000 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.