Appendix 3 to Report 65/25

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 2025/26 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 £7.024 million in 2025/26 to zero in 2035/36.

2 Loan Charges Budget

Summarised below is the loan charges budget for 2024/25, followed by the loan charges budget assumptions for the years thereafter.

2024/25 Financial Year
The General Fund loan charges budget for 2024/25 as set out in Appendix 1 amounts to £10.500 million, made up as follows:

	£m
Loan charges support grant	7.300
General Revenue Grant applied	3.200
Total Loan Charges Budget	10.500

2025/26 Financial Year and Beyond
Finance officers have reviewed the assumptions in the long-term affordability assessment and in particular the interest rates which are being assumed. The Council's current strategy of deferring new borrowing until interest rates fall means the interest cost (and rate) payable on our total borrowing will fall in the short term and this reduces the cost of loan charges. The long-term affordability assessment has been updated to reflect the fall in interest rates in the short term.

The assessment assumes the loan charges budget from 2025/26 onwards will be set at £10.5 million per annum.

Loan Charges Budget Summary
The approach has been to set the loan charges budget at a level that is sufficient to cover the estimated annual loan charges for most years in the assessment period. From 2026/27 onwards, the loan charges budget includes additional revenue funding from Scottish Government in respect of Monifieth Learning Centre which partially offsets the additional loan charges relating to that project. There are budget issues evident from 2043/44 onwards until 2049/50 which will require to be addressed however given the headroom which has been estimated in the years previous to this period, this is considered to be a manageable position over such a lengthy period.

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 £13.500 million per annum up to and including 2033/34, rising to £14.500 million thereafter.

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 must 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 from 2027/28 onwards over 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 2024/2029 Capital Plan (reports 61/25) 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:

Monifieth Learning Campus
The majority of the £66.5 million gross cost will be funded from borrowing, the impact of which will affect the revenue budget in the form of loan charges costs. Allowance has been made within the loan charges budgets to meet the borrowing costs for this project after taking account of the £47.6 million funding from the Learning Estate Investment Programme (LEIP). The revenue grant of £47.6 million 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.

The estimated grant funding from LEIP is payable over 25 years, commencing in financial year 2025/26 and this income has been built into the long-term affordability assessment and is included within the annual loan charges budget.

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 £8.649 million has been built into the capital plan and long-term affordability, including the Angus Rural Mobility Hub (£3.0 million).

Montrose Coast Protection – Preliminary Works
The £5.280 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 £1.200 million) there is no guarantee that such funding will be forthcoming. The Scottish Government have undistributed funding in 2025/26 for flood prevention and coastal management projects of £79.0m and £2.5m respectively, however this is to cover the whole of Scotland. There is therefore a very high level of risk attached to the proposed funding and deliverability of this project at this point in time.

Flood Risk Management
A £31.690m (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 the "Later Years" part of the capital plan. As with the aforementioned Montrose Coast Protection however, this programme also assumes a significant level of flood grant (£25.317m) and is therefore accompanied by the same risk that such funding is not guaranteed.

Arbroath Places for Everyone
Report 275/23 (presented to Angus Council (Special) on 19 October 2023) approved funding of £4.005 million from the council's capital budget towards the Arbroath Places for Everyone project. The project is estimated to cost £14.784 million with Sustran providing funding of £10.629 million and UK Shared Prosperity Fund contributing £0.150 towards the project.

Contingency
An overall general capital contingency of £5.292 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 2024/2029 Capital Plan.

Oversubscription
The 2024/2029 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 £13.455 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 expected 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;
- the balance of general capital grant is offset against the total net expenditure position of the capital plan; and
- the assumed base capital grant levels are as follows :- 2026/27 £9.232, 2027/28 £9.192m, and 2028/29 £8.692m. Thereafter the capital grant level has been set at £9.500 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 2024/2029 Capital Plan.

7 Capital Receipts

Predicting capital receipts levels and when the cash will be received is extremely difficult.

Notwithstanding, the affordability assessment assumes that £0.500 million of non-ring-fenced capital receipts can be achieved over the capital plan period

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 2025/26 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.

8 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.

9 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 above the Bank of England's target level of 2%, this assumption carries risk if inflation stays above this level for a prolonged period.