

- 3.6 For example, the PWLB rate is varied by plus or minus 1% to determine whether it would have a material impact on the model. In this example the movement does not change the ability of the investment to be repaid within the 25 years, merely the date the loan is repaid moves from year 20 using the base model to an 18 year repayment period if rates are 1% lower and 22 years if rates are 1% higher.
- 3.7 This sensitivity analysis provides a financial commentary on the impact of one of the assumptions moving, which in a project of this scale and complexity is highly likely.
- 3.8 In order to further understand the sensitivity of the base assumptions a further exercise has been undertaken to demonstrate the point at which one of the assumptions would have to move to move the model onto a position whereby the investment cannot be repaid within the 25 year TIF period.
- 3.9 This can be summarised below and demonstrates the sensitivity analysis that has been applied as well as examining the “break even” position by year. That is, moving the base assumption to the point where the investment by the Council will not be repaid within a 25 year period.
- 3.10 What this demonstrates, by way of example, is that if the level of void moves to a point higher than 26.8% then the investment would not be repaid within a 25 year period.
- 3.11 The TIF business case shows that the total cost of borrowing (the principal and the interest) for the £92 million investment is £149.7 million. This will be met over the period by NDR income of £221.8 million.

### Sensitivity Analysis

Scenario	Prudential Borrowing (£m)	Repayment Period (years)	Potential Interest Gap (£'000)	Surplus (£m)
Base Case	92	20	0	72
10% Increase in Capital Costs	101.2	22.5	0	47
Base Case: maximum capital expenditure serviceable within a 25 year term	115.2	25	673	0
Reduction in interest rates to 4.2%	92	18.5	0	89
Increase in interest rates to 6.2%	92	22	213	48
Breakeven interest rate of 7.41%	92	25	2,930	0
Reduction in void rates to 4.2%	92	19.5	0	82

Increase in void rates to 10.2%	92	20.5	0	62
Breakeven void rate of 26.8%	92	25	642	0
Delay in revenues of one year	92	22	1,876	45
Delay in revenues of two years	92	24	7,300	18
Delay in revenues of three years	92	Not repaid	13,000	0
1% Indexation applied to revenues	92	18	0	115

3.12 The above figures results in the Council being able to retain 50% of the NDR income stream from year 20 to 25 totalling £36 million and the same amount is redistributed back to the Scottish Government.

3.13 Finally, it should be noted that once the Council has constructed the relevant infrastructure within the TIF red line area there will be ongoing revenue implications for the upkeep, maintenance and running of the assets.

3.14 However, this would be partially offset through additional revenue funding by way of General Revenue Grant (GRG) as the Council would have higher grant indicators that would attract additional GRG. The submission of the TIF to the SFT must meet their criteria for TIF bids for capital infrastructure and therefore cannot include ongoing revenue implications.

3.15 In summary the TIF business case demonstrates that given the base assumptions, the model allows for the repayment of the up front investment within the 25 year period within the risk parameters set out above.

#### 4 OTHER IMPLICATIONS

4.1 Should Committee decide to submit the TIF scheme to SFT, and should it subsequently be approved by Scottish Government, Legal and Democratic Services will oversee the production of a TIF Scheme Agreement between Aberdeen City Council and SFT. This will likely involve Service scrutinising the terms and conditions proposed by the SFT and reporting back to Committee on the final agreement.

4.2 Other implications of the TIF scheme mainly relate to the economic impact that the scheme will have on the City's economy and this is fully outlined in the TIF Business Case.

4.3 The TIF scheme will contribute to providing a high quality City Centre environment, that compares favourably with other global energy cities, will confirm Aberdeen is serious about competing for mobile investment and maintaining its status as a global energy city.

#### 5 BACKGROUND/MAIN ISSUES