

North Lanarkshire Council Report

Policy and Strategy Committee

approval noting

Ref EK/GT

Date 06/06/2019

Community Investment Fund

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Executive Summary

Elected Members will recall the 'We Aspire - A Shared Ambition for North Lanarkshire' report approved at Committee in September 2018. This established the principle of the Community Investment Fund to support the development of the Council's shared ambition for inclusive growth and prosperity for the people and communities of North Lanarkshire.

This report provides additional commentary around the assumptions supporting the Community Investment Fund and provides a revised estimate of the potential funding available of £705m over the 10 year period. In addition, the report highlights the risks associated with the volatility linked to the planning assumptions and recommends the establishment of robust monitoring and review processes to ensure that investment plans are prudent, affordable and sustainable throughout the life of the fund.

Recommendations

It is recommended that Committee:

- 1) Notes the establishment of the Community Investment Fund as part of the Council's revenue budget for 2019/20,
- 2) Notes the assumptions used in determining the potential funding available and the impact of the revised assumptions on the resources available.
- 3) Notes the requirement for robust governance and monitoring arrangements to be put in place to ensure that investment plans are prudent, affordable and sustainable.

Supporting Documents

The plan for North Lanarkshire The establishment of the Community Investment Fund will support the Council's ambition to identify and access opportunities to leverage additional resources to support our ambitions

Appendix 1 Original Community Investment Fund model

Appendix 2 Revised Community Investment Fund model

1. Background

- 1.1 In September 2018, the 'We Aspire – A Shared Ambition for North Lanarkshire' presented to Policy and Resources Committee outlined proposals for the establishment of a Community Investment Fund (CIF). The ambition was to target the creation of additional resources of £500m over a 10 year period to support new capital expenditure in North Lanarkshire's communities. The investment would be funded through ring-fencing elements of future council tax income associated with the growth in housing and top-slicing an element of future council tax increases.
 - 1.2 The development of the CIF will support the Council's aspiration to make North Lanarkshire the place to Live, Learn, Work, Invest and Visit, with a shared ambition for inclusive growth and prosperity for all. Investment linked to CIF will be targeted towards tackling the barriers to growth by unlocking the potential in the most deprived areas, breaking the cycle of poverty and opening up opportunities to create more equal communities.
 - 1.3 The new investment, over and above the Council's core capital programme, will accelerate the delivery of ambitious plans for the community hub / integrated campus model and service delivery underpinned by community involvement and partnership whilst supporting the generation of future budget savings and supporting economic regeneration activity throughout North Lanarkshire.
 - 1.4 The Council's approved budget for 2019/20 recognised the establishment of the CIF by confirming the commitment to set aside 1% of council tax increases from 2020/21 and setting aside £0.696m in revenue resources during 2019/20 to provide for initial capital investment of £14.000m.
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2. Report

- 2.1 The Community Investment Fund will have two main forms of funding: forecast growth in Council Tax income which is directly linked to the Council's Ambition for economic growth; and the ring-fencing of 1% of future Council Tax increases.
- 2.2 The original modelling presented to Policy and Resources Committee in September 2018 was based on the assumptions outlined in Appendix 1. It has now been possible to update some of these assumptions and a revised model is presented in Appendix 2. Details of the assumptions used are presented below.

Raised from Ambition
- 2.3 In recent years the Council Tax base has continued to increase as new housing developments are completed across the local authority area. The Council's long-term financial plan already contains an estimate of additional income of £1.000m per annum through growth in the Council Tax base. This prudent historical assumption factors in the volatility of housing growth in any given year.
- 2.4 The development of the Community Investment Fund model, however, has provided the opportunity to review the historical trends associated with the growth in the Council Tax base which indicate that there has generally been an annual surplus above the £1.000m assumption. This surplus was reflected in the 2019/20 budget by the inclusion of an additional £0.900m of Council Tax growth with the ongoing surplus now directed towards the Community Investment Fund model now included in Appendices 1 and 2.

- 2.5 Additionally, it has assumed that the rate of growth will slow by approximately 5% per annum. This assumption is reflective of the “as is” position within the Council prior to the development and implementation of the Plan for North Lanarkshire.
- 2.6 Due to the inclusive growth ambitions outlined within the Plan for North Lanarkshire presented to Policy and Strategy Committee in March 2019, it has been assumed that there will be additional housing growth facilitated by the investment around the Council’s Community Growth Areas and Economic Regeneration Delivery Plan. A prudent estimate of an additional 300 properties (Band D equivalent) in 2021/22 rising by an additional 10% per annum has been assumed at this stage.
- 2.7 Furthermore, the original modelling reflected an ultimate collection rate in respect of Council Tax income of 96%. However, in recent years in year cash collections have successively increased and stabilised at around 97%. While this has a marginal positive impact on the level of CIF resources, the updated assumptions have now been reflected in the revised modelling.
- 2.8 In summary, the original modelling outlined in Appendix 1 assumed additional income from Council Tax growth from 2020/21 to 2029/30 that could be directed towards the Community Investment Fund of £13.543m. However, with assumptions updated as outlined above, it can now be assumed that £13.789m could be generated from growth in the Council Tax base, an additional £0.246m over the 10 year period (see Appendix 2).

Raised from Council Tax increases

- 2.9 The Council’s current long-term financial planning assumptions envisage annual Council Tax increases of 3%. With 1% set aside annually for prudential borrowing it is anticipated that £16.118m could be generated to support CIF from 2020/21 to 2029/30. This assumption remains constant between the original and revised model.
- 2.10 Therefore, the potential for total additional income to be directed towards the CIF can now be assumed to be £29.906m (see Appendix 2).

Investment Factor

- 2.11 The Local Government in Scotland Act 2003 introduced the Prudential Code for Capital Finance with effect from 1st April 2004. The key objectives of the code are to ensure that the capital investment plans for local authorities are affordable, prudent, sustainable and linked closely to Treasury Management practices.
- 2.12 Adopting the Prudential Code, prudential borrowing can be used to support capital investment provided revenue funding is available to meet the implications of capital expenditure, both borrowing costs (interest and principal repayments otherwise known as ‘loan charges’) and revenue implications.
- 2.13 The investment factor is determined by considering the prevailing interest rates available to the Council and the length of time the borrowing is repaid.
- 2.14 Assuming prevailing interest rates of 3.5% over a 40 year repayment period provided an investment factor of 18.5448 in the original modelling assumptions which would mean that estimated capital funding of £564m would have been available to support the Community Investment Fund (Appendix 1).

- 2.15 However, with the Council's proven track record in pro-actively managing its borrowing requirements and continuing to reduce the cost of borrowing, the assumption can now be updated to an interest rate of 3.0% over a 40 year repayment period which provides a revised investment factor of 23.1150. This would mean that estimated capital funding of £705m can now be assumed to be available to support the Community Investment Fund (Appendix 2).

Sensitivity Analysis

- 2.16 The availability of funding to support CIF will be dependent on a number of factors that will have an impact on the future level of capital investment available.

- The level of future housing growth
The level of new housing development is significantly influenced by the strength, or otherwise, of the economy. An increase or decrease in the assumed level of housing growth by a factor of 10% would alter the available funding by approximately £55m over the 10 year period based on the revised modelling assumptions.
- Future increases in Council Tax charges
To date, the Council has only formally agreed to set aside 1% of Council Tax to support CIF for financial year 2020/21. The setting aside of any future Council Tax increases will be dependent on future decisions of the Council. The modelling to identify the potential for a £705m CIF assumes Council Tax will rise by 3% and that 1% will be set aside for CIF in each of the 10 years of the programme.

A Council decision not to set aside 1% for CIF in any given year would reduce available funding by over £35m. Conversely, a decision to set aside additional Council Tax income of 1% in any one year would increase available funding by over £35m.
- Prudential borrowing factors
The model assumes an average interest rate of 3.0% will apply over lifetime of the fund from years 1 to 10. This is likely to be subject to volatility. A number of factors could result in a change in interest rate levels over the 10 year investment period including economic instability linked to constitutional affairs outwith the Council's control, the health of the Scottish and UK economies and the impact of changes in external economics. It is estimated that if the interest rate rises by 0.5% then over £50m less capital funding will be available to support CIF.

Additional funding sources

- 2.17 Modelling to date has not included the potential for additional income sources outwith Council Tax. However, there is the potential for additional funding becoming available over the 10 year period to support CIF as follows:

- Additional capital receipts
The Council's composite capital programme for 2018/19 to 2022/23 approved at Policy and Resources Committee in March 2018 assumed that £20.366m of capital receipts would be available to augment the receipt of capital grant and any prudential borrowing. Following the approval of the DigitalNL business case by Policy and Strategy Committee in March 2019, the funding package to support this transformation programme now assumes the use of ring-fenced capital receipts.

However, the availability of one-off capital receipts in excess of those required to support DigitalNL could be directed towards CIF to augment the available funding.

- **Section 75 planning obligations**
Through the planning process, the Council can require developers to make financial contributions towards schools, roads, transport, public realm and affordable housing. Although these obligations include conditions linked to specific geographical locations and time periods, they can be utilised to augment resources available.
- **Impact of new investment**
Disinvestment activity will also be examined as a source of funds to augment CIF as the Council replaces existing non-viable assets with modern community hubs which have been designed around the shared needs of education, economy, and community.

Governance

- 2.18 The terms of reference for the Strategic Capital Delivery Group will be updated to reflect the future focus on supporting the Council's ambition through the Community Investment Fund. A prioritised work plan will be established in line with available funding and will ensure alignment with wider strategic plans for North Lanarkshire's communities and development of the Council's Enterprise Contract which will support the delivery of a programme of investment in our infrastructure, facilities and services of over £2 billion over the next 10 years as outlined to Policy and Strategy Committee in February 2019.

Monitoring

- 2.19 Clearly, with the potential for significant variation in a number of factors supporting CIF, there is a requirement for ongoing monitoring, sensitivity analysis and reporting of the available resources to ensure that any future capital investment decisions continue to be affordable, prudent and sustainable.
- 2.20 Therefore, it is proposed that an annual position / monitoring statement is presented to Committee to demonstrate the ongoing impact of changes in the variables outlined above on the funding available through CIF. Importantly, this process will ensure that investment plans continue to be scaled to reflect decisions of the Council and the wider economic environment affecting available resources.

3. Equality and Diversity

3.1 Fairer Scotland

There are no requirements for an assessment under the Fairer Scotland duty arising from this report, however, members should be assured that The Fairer Scotland assessment process will be undertaken as appropriate when considering investment decisions.

3.2 Equality Impact Assessment

There are no specific equality impacts.

4. Implications

4.1 Financial Impact

The financial impacts are outlined throughout the report.

4.2 **HR/Policy/Legislative Impact**

None identified.

4.3 **Environmental Impact**

None identified.

4.4 **Risk Impact**

The governance and monitoring arrangements put in place will ensure that risk is managed across CIF programmes, including through the Council's revenue budget, capital planning and treasury management strategies.

5. **Measures of success**

5.1 Success will be evidenced through the development of projects and programmes of activity funded through the Community Investment Fund and their impact on the communities of North Lanarkshire.



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Community Investment Fund – Original Assumptions

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Raised from Ambition - Growth in Band D Equivalents												
"As is" Growth		1,700	1,619	1,542	1,469	1,399	1,332	1,269	1,208	1,151	1,096	
Growth from ambition			300	330	363	399	439	483	531	585	643	
Increase in Band D equivalents		1,700	1,919	1,872	1,832	1,798	1,771	1,752	1,740	1,735	1,739	17,857
Council Tax Charge for Band D (assume 3% increase pa)		1,200	1,236	1,273	1,311	1,350	1,391	1,433	1,476	1,520	1,566	
Total Additional Council Tax Income from growth (£000)		2,040	2,372	2,383	2,401	2,428	2,464	2,510	2,567	2,638	2,722	24,524
Less assumed 4% non-collection (£000)		- 82	- 95	- 95	- 96	- 97	- 99	- 100	- 103	- 106	- 109	- 981
Less amount assumed in Long Term Financial Plan (£000)		- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 10,000
Amount available for Community Investment Fund (£000)		958	1,277	1,288	1,305	1,331	1,365	1,409	1,464	1,532	1,613	13,543
Raised from Council Tax increases												
Additional income from assumed 3% increase pa		4,218	4,344	4,475	4,609	4,747	4,890	5,036	5,187	5,343	5,503	48,353
Amount available for Community Investment Fund (£000) - 1% set aside		1,406	1,448	1,492	1,536	1,582	1,630	1,679	1,729	1,781	1,834	16,118
Total estimated additional income for Community Investment Fund (£000)		2,364	2,725	2,779	2,842	2,913	2,995	3,088	3,194	3,313	3,448	29,661
Investment Factor (revenue funding converted to capital)		18.5448										
Total Capital Funding Available	14,000	43,843	50,534	51,539	52,698	54,026	55,543	57,268	59,225	61,439	63,941	564,057

Assumptions:

1. "As is" Growth – historically, the Council Tax Band D equivalent properties has averaged around 1,700 per annum. This model assumes this growth will reduce by 5% per annum
2. Growth from ambition – modelling assumes that additional housebuilding linked to the Plan for North Lanarkshire will be 300 (Band D equivalent) in Year 2, rising by an additional 10% per annum.
3. Council Tax will rise by 3% per annum, with 1% ring-fenced to support CIF but this is subject to future Council decisions.
4. Council Tax collection rate assumed to be 96%.
5. £14.000m CIF established as part of 2019/20 Revenue Budget.
6. Investment Factor assumed to be 18.5448 based on and interest rate of 3.5% over 40 years and incorporating potential changes in the Scottish Government's guidance on accounting for loan charges.

Community Investment Fund – Revised Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Raised from Ambition - Growth in Band D Equivalents												
"As is" Growth	1,700	1,619	1,542	1,469	1,399	1,332	1,269	1,208	1,151	1,096		
Growth from ambition			300	330	363	399	439	483	531	585	643	
Increase in Band D equivalents	1,700	1,919	1,872	1,832	1,798	1,771	1,752	1,740	1,735	1,739	1,739	17,857
Council Tax Charge for Band D (assume 3% increase pa)	1,200	1,236	1,273	1,311	1,350	1,391	1,433	1,476	1,520	1,566		
Total Additional Council Tax Income from growth (£000)	2,040	2,372	2,383	2,401	2,428	2,464	2,510	2,567	2,638	2,722		24,524
Less assumed 3% non-collection (£000)	- 61	- 71	- 71	- 72	- 73	- 74	- 75	- 77	- 79	- 82	- 736	
Less amount assumed in Long Term Financial Plan (£000)	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 1,000	- 10,000
Amount available for Community Investment Fund (£000)	979	1,301	1,311	1,329	1,355	1,390	1,434	1,490	1,558	1,641	1,641	13,789
Raised from Council Tax increases												
Additional income from assumed 3% increase pa on 19/20 Council Tax base	4,218	4,344	4,475	4,609	4,747	4,890	5,036	5,187	5,343	5,503		48,353
Amount available for Community Investment Fund (£000) - 1% set aside	1,406	1,448	1,492	1,536	1,582	1,630	1,679	1,729	1,781	1,834	1,834	16,118
Total estimated additional income for Community Investment Fund (£000)	2,385	2,749	2,803	2,866	2,938	3,020	3,113	3,219	3,339	3,475	3,475	29,906
Investment Factor (revenue funding converted to capital)	23.1150											
Total Capital Funding Available	14,000	55,119	63,536	64,791	66,240	67,902	69,801	71,962	74,414	77,190	80,328	705,282

Assumptions:

1. "As is" Growth – historically, the Council Tax Band D equivalent properties has averaged around 1,700 per annum. This model assumes this growth will reduce by 5% per annum
2. Growth from ambition – modelling assumes that additional housebuilding linked to the Plan for North Lanarkshire will be 300 (Band D equivalent) in Year 2, rising by an additional 10% per annum.
3. Council Tax will rise by 3% per annum, with 1% ring-fenced to support CIF but this is subject to future Council decisions.
4. Council Tax collection rate assumed to be 97%.
5. £14.000m CIF established as part of 2019/20 Revenue Budget.
6. Investment Factor assumed to be 23.1150 based on and interest rate of 3.0% over 40 years and incorporating potential changes in the Scottish Government's guidance on accounting for loan charges.