

North Lanarkshire Council Report

Policy and Strategy Committee

approval noting

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Community Investment Fund – Updated Scenario Planning

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Executive Summary

In September 2018, the 'We Aspire – A Shared Ambition for North Lanarkshire' report presented to Policy and Resources Committee outlined proposals for the establishment of the 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.

Updated assumptions reported to Policy and Strategy Committee in March 2020 highlighted a revised estimate of the potential funding available to £694m over the 10 year period.

This report provides an update in response to the economic uncertainties created by the COVID-19 pandemic and provides two different scenarios for future CIF projections – an optimistic scenario of £634.500m and a pessimistic scenario of £540.194m being available over the 10 year period.

Recommendations

It is recommended that Committee:

- (1) Notes the economic uncertainties created by COVID-19 that will have an impact on Community Investment Fund projections,
- (2) Notes the optimistic and pessimistic scenarios outlined in paragraphs 2.5 to 2.8 and highlighted in Appendices 1 and 2,
- (3) Notes the decision of the Strategic Capital Delivery Group to plan for funding at the pessimistic level for the upcoming 5 year capital programme to ensure programme delivery can proceed while ensuring plans are robust, affordable and sustainable.

The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (21) Continue to identify and access opportunities to leverage additional resources to support our ambitions

1. Background

- 1.1 In September 2018, the 'We Aspire – A Shared Ambition for North Lanarkshire' report presented to Policy and Resources Committee outlined proposals for the establishment of the 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 CIF aims to 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 aims to 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 Updated assumptions reported to Policy and Strategy Committee in June 2019 highlighted a revised estimate of the potential funding available to £705m over the 10 year period. A further update in March 2020 revised the figure downwards to potential funding of £694m linked to underlying assumptions at that date. The decrease was largely attributable to an assessment that borrowing costs were likely to increase over time following a decision of the UK Government to increase Public Works Loan Board (PWLB) borrowing rates.
- 1.5 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.
- 1.6 The Council reiterated its commitment to the Community Investment Fund in approving its 2020/21 revenue budget on 24 February 2020 by setting aside 1% of Council Tax receipts for 2020/21 and approving the allocation of any additional Council Tax growth above the Medium Term Financial Plan assumption of £1.000m towards CIF.

2. Report

- 2.1 As previously highlighted, 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 report to Policy and Strategy Committee in March 2020 updated these assumptions in line with prevailing economic conditions and forecasts and committed to providing an annual update on these assumptions. However, given the significant economic shock caused by COVID-19 it is prudent to provide an additional update to Elected Members outwith the agreed annual cycle.

2.3 It is now known that the UK economy contracted by 22.1% in the first six months of 2020 (Source: Office for National Statistics). The Office for National Statistics figures indicate that there have been four consecutive months of economic expansion since restrictions eased in May. However, the economy is still 9.2% smaller than before the pandemic struck and there are concerns that the most recent reported monthly growth for August 2020 was lower than expected.

2.4 This wider economic uncertainty, especially with the return to increased restrictions over the autumn and winter months, poses significant risks to CIF as follows:

Council Tax Growth Linked to Economic Growth

2.4.1 There are a number of factors that suggest ongoing uncertainty and instability in the potential for new housebuilding:

Confidence in the demand for new houses

2.4.2 The latest Residential Market Survey for September 2020 published by RICS indicated an increase in new buyer enquiries in Scotland but that rate is slowing (3 month average of around +80% compared to most recent month at around +50%). The number of newly agreed sales also continues to rise but again at a lower rate than over the preceding three month period (around 45% in September compared to around 60% average across the previous 3 month period). This 'bounce back' has been attributed to pent up demand following the COVID-19 related lockdown and the availability of short-term Scottish Government support and incentives in the form of reduced Land and Buildings Transaction Tax liabilities.

2.4.3 However, the longer term prospects as assessed by these key market experts was less optimistic with respondents being more cautious as a result of the uncertain economic outlook. Respondents indicated significantly reduced sales expected over the 12 month period (sales expectations to drop by 34%) as the nature and speed of economic recovery is uncertain.

2.4.4 The demand for housing in a post-COVID-19 world is also significantly uncertain. It has been suggested that with a significant rise in working from home suburban and rural living with larger houses and more outdoor spaces will be more in demand with city centre living reducing.

2.4.5 There is evidence of continuing demand within North Lanarkshire with housebuilders continuing to submit new planning applications. Although it should be noted that a planning application itself does not necessarily lead to housebuilding in the short to medium term. The Planning and Regeneration service is progressing work on a development tracker that will aim to provide live data to support future CIF projections.

2.4.6 At this stage it is too early to assess any trends and what impact these demand factors may have on North Lanarkshire.

Linked confidence in the supply of new houses

2.4.7 If consumer confidence doesn't rebound quickly then the response of housebuilders is likely to be to mothball projects / sites until there is greater certainty of demand. While many individual house building companies have indicated that their future plans are unaffected by COVID-19, a number of sectoral organisations, such as the Construction Products Association, have indicated that uncertainty still remains around longer-term demand and future new orders given the state of the wider economy. They have also suggested that long term confidence for new developments is fragile with the prospect for rising unemployment and signs that lender appetite is worsening (they predict there

will be 48% fewer completions next year). This lender appetite may apply to both the mortgage market (impacting on demand) but also on the ability for house builders to borrow to fund their investments in housing development.

2.4.8 However, so far it appears that the factors that contributed most to the last recession in 2008 such as the lack of availability of credit are unlikely to be a significant feature of the COVID-19 economic shock.

2.4.9 Notwithstanding both of these issues, the Council's Medium Term Financial Plan is based on the assumption that £1m of annual Council Tax growth supports the Council's cost pressures with any additionality contributing to the funding for CIF. At this stage, there is a live risk that the annual £1m may not be achieved given the evolving arrears situation, although Financial Solutions continues to monitor Council Tax collection rates.

Raised from Council Tax Increases

2.4.10 In setting the 2020/21 budget, Elected Members agreed the maximum allowable rise in Council Tax and as part of the approved budget motion agreed to set aside 1% of this rise to support CIF.

2.4.11 The Council's approved Medium Term Financial Plan (MTFP) continues to assume that 1% of future Council Tax rises will be set aside to support CIF. However, the MTFP also highlights a significant funding gap from 2021/22 to 2023/24 which will require Elected Members to make challenging decisions to obtain balanced budgets in the years ahead.

Scenario Planning

2.5 Given the significant economic uncertainties caused by COVID-19, Financial Solutions has produced models for potential CIF funding based on optimistic and pessimistic scenarios. Both scenarios assume the continued ring-fencing of 1% Council Tax increases in support of CIF and that there is no significant change in borrowing rates from those outlined in the March 2020 report.

2.6 The optimistic scenario reflects short-term reductions in the growth in the Council Tax base above the £1m already included within the MTFP assumptions before growing to previously anticipated levels over the medium term.

2.7 The pessimistic scenario reflects the risk that there will be more limited growth in the Council Tax base over the medium term with recovery to previously anticipated levels taking place over the longer term.

2.8 In summary, the revised funding potentially available across the different scenarios is as follows, with more detailed analysis presented in Appendices 1 and 2:

Community Investment Fund – potential funding availability			
	2019/20 to 2025/26 £000	2026/27 to 2029/30 £000	Total £000
Per report to Policy & Strategy Committee in March 2020	395,224	298,778	694,002
November 2020 - Optimistic Scenario	335,722	298,778	634,500
November 2020 - Pessimistic Scenario	263,994*	276,200	540,194

*The figures to 2025/26 will be included within the Council's new 5 year capital programme.

Future Capital Planning

- 2.9 In July 2020, the Council's Strategic Capital Delivery Group (SCDG) agreed to commence work to develop a new 5 year capital programme for the period 2021/22 to 2025/26, replacing the current programme in place until 2022/23.
- 2.10 At a further meeting in October 2020, the group considered a report outlining potential governance approaches for CIF programme delivery and funding. In summary, the report highlighted that the Council will only be able to establish the exact quantum of CIF funding as when income is actually earned. However, the challenge is to balance the requirement to plan for programme delivery in line with the Council's ambitions and to ensure that investment plans are prudent, affordable and sustainable.
- 2.11 In response to these potentially competing aspects, the SCDG agreed that the CIF funding assumption would be based on pessimistic growth scenarios. This approach will ensure that programme delivery can proceed over a multi-year planning period whilst managing the financial risks associated with committing capital investment against income that has yet to be earned.
- 2.12 The pessimistic scenario presented in Appendix 2 highlights that the most significant proportion of revenue funding in support of CIF is generated from the ring-fenced 1% of annual Council Tax rises. Therefore, the risk of Council Tax growth not materialising is more limited and manageable across the medium term with £0.200m revenue impacts per annum from 2022/23 onwards.
- 2.13 The Council's new 5 year capital programme is currently being developed and Elected Members will be asked to approve the programme in March 2021. This programme will be based on the pessimistic assumptions of CIF investment as outlined in Appendix 2 including the ring-fencing of 1% of annual Council Tax rises for that 5 year period.

3. Equality and Diversity

3.1 Fairer Scotland Duty

There are no requirement 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.

6. **Supporting documents**

- 6.1 Appendix 1 – Community Investment Fund model – optimistic scenario
Appendix 2 – Community Investment Fund model – pessimistic scenario



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Community Investment Fund model – Optimistic Scenario

	2019/20	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25	Year 6 2025/26	Year 7 2026/27	Year 8 2027/28	Year 9 2028/29	Year 10 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	
Impact of COVID-19 economic slowdown		- 856	- 772	- 440	- 132							
Increase in Band D equivalents		844	1,147	1,432	1,699	1,798	1,771	1,752	1,740	1,735	1,739	15,658
Council Tax Charge for Band D (assume 3% increase pa)		1,221	1,258	1,296	1,335	1,375	1,416	1,458	1,502	1,547	1,594	
Total Additional Council Tax Income from growth (£000)		1,031	1,443	1,856	2,268	2,471	2,508	2,555	2,613	2,685	2,771	22,200
Less assumed 3% non-collection (£000)		- 31	- 43	- 56	- 68	- 74	- 75	- 77	- 78	- 81	- 83	- 666
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)		-	400	800	1,200	1,397	1,433	1,478	1,535	1,604	1,688	11,534
Raised from Council Tax increases												
Additional income from assumed 3% increase pa on 19/20 Council Tax base		4,293	4,422	4,555	4,691	4,832	4,977	5,126	5,280	5,438	5,602	49,217
Amount available for Community Investment Fund (£000) - 1% set aside		1,431	1,474	1,518	1,564	1,611	1,659	1,709	1,760	1,813	1,867	16,406
Total estimated additional income for Community Investment Fund (£000)		1,431	1,874	2,318	2,764	3,008	3,092	3,187	3,295	3,417	3,555	27,940
Investment Factor (revenue funding converted to capital)		22.2084										
Total Capital Funding Available	14,000	31,782	41,618	51,484	61,379	66,801	68,658	70,771	73,169	75,884	78,953	634,500

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. Reductions in growth applied to reflect anticipated slowdown associated with COVID-19 related economic recession and recovery period.
4. Council Tax will rise by 3% per annum, with 1% ring-fenced to support CIF but this is subject to future Council decisions.
5. Council Tax collection rate assumed to be 97%.
6. Investment Factor assumed to be 22.2084 based on and interest rate of 3.25% over 40 years

Community Investment Fund model – Pessimistic Scenario

		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		
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		
Impact of COVID-19 economic slowdown		- 856	- 1,100	- 917	- 750	- 598	- 461	- 338	- 230	- 136			
Increase in Band D equivalents		844	820	955	1,081	1,200	1,311	1,414	1,510	1,599	1,739	12,473	
Council Tax Charge for Band D (assume 3% increase pa)		1,221	1,258	1,296	1,335	1,375	1,416	1,458	1,502	1,547	1,594		
Total Additional Council Tax Income from growth (£000)		1,031	1,031	1,237	1,443	1,649	1,856	2,062	2,268	2,474	2,771	17,823	
Less assumed 3% non-collection (£000)		- 31	- 31	- 37	- 43	- 49	- 56	- 62	- 68	- 74	- 83	535	
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)		-	-	200	400	600	800	1,000	1,200	1,400	1,688	7,288	
Raised from Council Tax increases													
Additional income from assumed 3% increase pa on 19/20 Council Tax base		4,293	4,422	4,555	4,691	4,832	4,977	5,126	5,280	5,438	5,602	49,217	
Amount available for Community Investment Fund (£000) - 1% set aside		1,431	1,474	1,518	1,564	1,611	1,659	1,709	1,760	1,813	1,867	16,406	
Total estimated additional income for Community Investment Fund (£000)		1,431	1,474	1,718	1,964	2,211	2,459	2,709	2,960	3,213	3,555	23,693	
Investment Factor (revenue funding converted to capital)		22.2084											
Total Capital Funding Available		14,000	31,782	32,735	38,159	43,612	49,096	54,610	60,157	65,738	71,352	78,953	540,194

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. Reductions in growth applied to reflect anticipated slowdown associated with COVID-19 related economic recession and recovery period. Pessimistic assumes slower recovery.
4. Council Tax will rise by 3% per annum, with 1% ring-fenced to support CIF but this is subject to future Council decisions.
5. Council Tax collection rate assumed to be 97%.
6. Investment Factor assumed to be 22.2084 based on and interest rate of 3.25% over 40 years