

North East Derbyshire District Council**Cabinet****9 March 2016****Medium Term Financial Plan 2016/17 to 2018/19 Update****Report No: PRK/28/15-16/BM of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy, Finance and Regeneration**

This report is public

Purpose of the Report

- To set out the identified options which have been identified for addressing the financial shortfall over the three year period of the current Medium Term Financial Plan (MTFP) and to establish a plan of work to progress those options which are agreed.

1 Report Details

- 1.1 Council at its meeting of 15th February 2016 approved the Medium Term Financial Plan covering the next three financial years. As part of that Plan the Council agreed the recommended measures of both a 1.95% Council Tax increase together with a revision to the Local Council Tax scheme in order to assist in addressing the budget shortfall. The revised position following February Council is outlined in the table below:

	£000's	£000's	£000's
Efficiency Target / Budget Shortfall Reported to Feb 2016 Council	395	1,544	1,931
Measures Agreed by Council 15 February 2016			
Increase in Council Tax (2016/17)	(102)	(102)	(102)
Accelerate Reduction in Local Council Tax Support Scheme to Town and Parish Council's	0	(47)	(94)
Repayment of Debt – Saltergate	(100)	(100)	(100)
Revised Shortfall following Feb 2016 Council	193	1,295	1,635

- 1.2 While the recommendations agreed at Council have assisted given the extent of the savings remaining to be identified it is crucial that the Council agrees and begins to implement further measures in order to balance the budget. The table provided in **Appendix 1** sets out the measures which were identified in the MTFP as potential savings opportunities. This report provides some further details and seeks Cabinet endorsement to progress the work necessary to realise these savings.

Planning and New Homes Bonus

- 1.3 One of the issues considered within the MTFP was that as part of the Autumn Statement the Government initiated a consultation process around New Homes Bonus, which seems likely to have a direct financial impact on those Councils which do not meet Government expectations in respect of Planning. These will be in addition to the current requirement to maintain performance levels in respect of the timescale for processing planning applications. The key measures concerned together with the position locally are set out below:

- Withholding the Bonus from areas where an authority does not have a Local Plan in place. Under the Government's preferred option previous year allocations (prior to 2017/18) would not be lost, but future allocations would. While the Consultation paper is not clear as to the criteria which will be used to determine whether a Local Plan is in place, on the basis of our current project plan the earliest realistic date for the submission of a plan for inspection is likely to be the latter half of the 2017 calendar year. Given the desirability of having a Local Plan in place at the earliest opportunity together with the associated financial advantages officers will continue to progress work on the Local Plan at the earliest opportunity seeking to bring forward that date if feasible. There is a financial reserve currently in place which will fund the anticipated level of external consultancy which is necessary to progress the Local Plan in a timely fashion, however, should additional funding be required in order to ensure that the work is completed at the earliest opportunity then a further report will be brought back to Cabinet setting out such proposals.
- Abating the Bonus in circumstances where planning permission has only been granted on appeal. Under this option the Government would reduce new in year allocations payments to authorities where residential development is allowed on appeal. Clearly decisions concerning planning are matters for the Planning Committee to take on planning grounds alone. Generally speaking the financial loss from refusing one average sized application for 50 houses is likely to be relatively limited, namely £50k p.a. over a four year period, against an annual income from New Homes Bonus in the region of £0.2m p.a. More significant, however, is the fact that to overturn the Planning Committee decision will require an appeal through the Courts which if lost is likely to cost the Council in the region of £0.250m. Therefore a decision by Planning Committee to turn down a development which is subsequently approved could well be at a total cost spread over four years of £0.5m to the Council. Given the difficulty of the Council's financial position refusing planning applications – which are then allowed on appeal – will place significant pressures on the Council's financial position.

- While the Consultation Paper set out a range of other options these do not relate to North East Derbyshire specifically and our ability to mitigate any 'risks' they present is in reality limited to any response we may choose to make to the Consultation paper.

Cabinet will recall that the final date for submission of the Council's response to the New Homes Bonus Consultation is the 10th March 2016. At the time of writing this report officers were finalising the Council's response, although the actual submission will be made as late as possible to ensure that this Council's approach is in line with that adopted by the local government regionally and nationally.

Economic Development

- 1.4 While responding to the New Homes Bonus consultation may secure some benefit to the Council, the key issue continues to be the work that is being undertaken in order to increase the number of new homes that are being built. Although New Homes Bonus is only provided for a limited number of years the Council also benefits from increased levels of income through Council Tax, with every new home providing on average an additional revenue of £150 p.a to this Council. For example if housing numbers increase by 200 then income increases by £30,000. While the Council itself has a limited programme of building new homes, the number of houses built is largely dependent upon the viability of housing scheme to private sector developers. This is an issue which is effectively largely out of the influence of this Council.
- 1.5 The other aspect of the Growth agenda concerns efforts to increase the level of NNDR received by the Council. At this point in time the Council is not expecting any significant economic development over the period of the current Medium Term Financial Plan. While we are aware of some smaller retail development that will take place in reality any gains from these are likely to be offset by businesses that close or relocate, and by revaluation appeals. The only way to significantly improve the position is to identify major sites that are suitable for economic development. To progress this work the Council has committed to funding studies in respect of Callywhite Lane and the land at the Avenue. While significant progress has been made in a range of areas to bring land forward for development at the Avenue, Callywhite Lane, Coalite all these initiatives are at a relatively early stage and will take time to deliver given that significant investment in infrastructure will be required prior to marketing the sites. Although it may be the case that the infrastructure itself will be in place prior to the end of the current MTFP in March 2019 it is unlikely that any of these sites will have generated a significant growth in NNDR income by that stage. While the Council may not see any benefits in the immediate future it is crucial that we continue with work to bring these and other sites forward.

Vacancy Management

- 1.6 With respect to vacancy management the Council has agreed a £50k 'one off' target in each year of the MTFP. This target is, however, intended to relate solely to the savings that arise from the interval between a job becoming vacant and the new employee commencing work. What has become increasingly clear over the last two years is that effectively all posts are being filled. It is only in those areas where a

transformation project has been agreed – which secures efficiency savings – that posts are being disestablished. While savings from disestablishing vacant posts have been minimal it is intended that the process of senior officers being required to review all vacancies before they are put out to advert will continue, in order to help secure the reduction in staff numbers – from natural wastage wherever possible – which is essential if the Transformation Programme is to secure the targeted level of financial savings.

Transformation Programme

- 1.7 Moving on to the Transformation Programme the Council has set a challenging target of securing efficiency savings of some £0.450m over the next three years. In considering the Transformation Programme one of the key issues will be the availability of Invest to Save funding in order to fund the investment and restructuring costs likely to be incurred as a result of the Council's requirement to reduce its cost base. As at the end of March 2016 the Council is currently anticipating that it will have an amount of £1.8m held in the Invest to Save reserve. This figure is however, based upon the anticipation of a significant underspend at the 2015/16 year end which may not materialise. The Programme will need to be carefully managed to ensure that it continues to operate within the context of the available level of resources. Within the context of the localism agenda it does need to be noted that there are emerging issues in respect of the treatment of Health Service premises which may result in valuation appeals which would potentially reduce the level of NNDR income currently assumed by the Council. Likewise, there may be appeals against Planning decisions which potentially may have significant costs implications. To the extent to which unforeseen / unbudgeted costs have an impact upon the Council then they will effectively become a charge against the Invest to Save Reserve which will reduce the availability of the investment that is required to improve services and reduce costs. At a maximum level of £1.8m with Leisure upgrades alone requiring £1.25m the Invest to Save Reserve will need to be carefully managed if the Council is to be in a position to deliver its Transformation Programme.

Leisure

- 1.8 Within the Transformation Programme the key financial benefits that have currently been identified would arise as a result of the implementation of the Leisure Strategy as set out in a report to Cabinet of November 2015. Work is continuing to finalise proposals but on the basis that the schemes as set out within that report are progressed then the following savings are anticipated:

	Eckington	Dronfield	Sharley Park
Current (Surplus)/Deficit	£0.180m	(£0.012m)	£0.299m
Potential Saving/Revenue Growth	(£0.156m)	(£0.088m)	(£0.374m)
Investment Required	£1m	£0.25m	(£6.2m)
Payback Period	6.4 years	2.8 years	16.6 years

On the basis of the work done to date it would be possible to fund the Eckington and Dronfield proposals from Invest to Save reserve while securing a good payback period. By utilising £1.25m of Invest to Save reserve the Council should

secure financial savings approaching £0.250m, which constitutes just over half of the targeted Transformation savings for the period of the current MTFP.

- 1.9 With respect to Sharley Park it is considered that the most appropriate approach is not to further upgrade the existing facilities but to progress with exploring options for a new build. The existing facility has seen significant investment over the last five years with all the pool mechanical, electrical and heating systems replaced and a remodelled gym facility constructed. While the centre is fit for purpose and provides a valuable service to local residents, it is a sprawling building which makes poor use of space. As a result it is expensive to operate and officers see little advantage in a further refurbishment/remodelling of the current building which would be expensive while not securing the advantages that would arise from a new build. If a new build option were the preferred approach the Council would have the opportunity to develop a package including grant support and other funding. In the light of these considerations the Leisure Strategy concluded that the better medium term option would be to develop a new provision rather than further upgrade Sharley Park. The anticipated rebuild cost is some £6.2m which would in part be funded by £1.7m of grant. Officers have explored the position with Sport England and although the required level of grant is not currently available due to other commitments, Sports England are of the view that a grant application targeted at a programme which commenced in 3 to 5 years time would have a good prospect of proving successful. The remainder of the costs would need to be funded by prudential borrowing. While the proposal would secure a new leisure facility in Clay Cross it should be noted that the financial case would only secure a breakeven position with the reduction in subsidy being offset by the additional costs of funding the £4.5m of prudential borrowing that is anticipated to be required.
- 1.10 With respect to the work at Eckington and Dronfield officers are currently working up options to deliver the necessary programme of work. Both schemes are targeted at securing an Invest to Save financial return as part of the Transformation Agenda to balance the Council's budget. The work at Eckington would consist of extending the current gym from 30 to 50 stations and creating studio/multiuse space within the building either by an extension or by relocating existing activity. Alongside the Invest to Save elements of the scheme it will be necessary to undertake a comprehensive programme of renewing the pool plant room equipment. Although there will be some energy efficiency savings etc. much of this expenditure is actually required to replace old mechanical, filtration and electrical equipment which is now life expired. The payback period of the overall proposals is in the region of 6.4 years.
- 1.11 Secondly, it is proposed to increase the total number of stations at the Dronfield Leisure centre from 58 to 80. This would require the construction of a mezzanine floor while the existing Sauna area would be refurbished as a studio/multiuse space. The costs of the construction work would amount to some £0.25m, but are anticipated to generate an additional £0.088m of income a year giving a payback period of some 2.8 years. It is proposed that officers progress this work including procurement of the schemes before bringing back a detailed report to Cabinet seeking final approval.
- 1.12 Apart from the Leisure schemes while there are a number of minor projects contained within the current Transformation Programme the main identified financial

savings – other than those arising from Leisure - have already been incorporated within the MTFP. At this point in time many the proposed projects are effectively concerned with securing improvements in the back office systems such as Firmstep. While these improvements should reduce workloads those efficiencies will in reality need to be secured by a reduction in the number of back office staff. It should be feasible to secure much of the potential efficiency savings through natural wastage, although the level of savings that can be secured cannot be assessed with any accuracy at this point in time. Given that there remains some £200k of Transformation Savings to be identified then it would require a reduction of up to 10 employees in order to secure the targeted level of savings. It should be possible to secure these savings from a combination of natural wastage and vacancy management.

Property

- 1.13 Currently we are assuming no further savings from property assets. Occupation levels at the Council's industrial properties and Coney Green are at a high level which reflects the work undertaken over recent years to improve occupancy levels. Whilst a continued tenancy has been secured for the Mill Lane site for the majority of the current financial year, there may be opportunities to secure rental income from January 2017 onwards which would help the budget position. On the basis of current rental levels this would secure increased income of some £20k a year, although the potential might increase were the Council able to free up more space within the building. Given that the refurbishment included all affordable energy efficiency measures there is relatively little further saving that could be secured from the operation of the building.
- 1.14 While the Council has paid some £2m of the £3m of prudential borrowing invested in the property rationalisation programme which included the acquisition of Mill Lane and the disposal of Saltergate and Westthorpe Business Centre, there remains the requirement to dispose of the remaining land at Mill Lane in order to repay the outstanding prudential borrowing on this project. While on the basis of current information the asset should raise a value in the region of £2m, in reality this receipt is not likely to be secured within the next 3 years unless the Council is prepared to sell at a much reduced price.
- 1.15 Given the delay in realising the full value of the Mill Lane site the Asset Management Group has been requested to identify potential sites which would secure a significant value. Although there are a number of smaller sites such as the former Holmewood Depot which may realise values of up to £0.250m, the only major opportunity which can be realised over the period of the current MTFP is that at Ankerbold Road Old Tupton which is currently used as grazing land but which is identified in the SHLAA (Strategic Housing Land Availability Assessment) as a potential housing site. While the site is already earmarked in planning terms at this stage no feasibility work has been undertaken. It is therefore recommended that some £25,000 from the Invest to Save Fund is allocated in order to provide a site brief, designed to explore the options for bringing the site forward for development within the next 3 years. The work on that site brief will provide the basis for a

detailed report back to Cabinet concerning the options that are available with respect to this site.

- 1.16 Finally, Cabinet will recall that in the March of 2013 Council agreed to assume responsibility for the Formal and Informal Open Space at the Avenue from the HCA. While the arrangement was originally intended to commence in April 2013 the transfer of the land involved has been delayed until the first phase of the Avenue project is completed with transfer now potentially taking place at some point in the 2017/18 financial year. Under this arrangement the Council will accept the transfer of the open space on the Avenue site from the HCA. That will bring with it the associated maintenance and other liabilities, in recognition of which the HCA will make a 'dowry' payment in excess of £5m. As this is a capital receipt it will need to be used to repay debt in order to offset the increase in maintenance costs which will arise as a result of the obligation to maintain the land concerned. On the basis of the estimated figures as at March 2013 in the earlier years the savings on interest and principal repayments of debt should outweigh the additional grounds maintenance cost by an amount of some £0.2m. Given that the Avenue scheme seems likely to progress in line with currently planned timescales it would seem reasonable to assume that saving within our financial forecast in respect of 2017/18, thus reducing the shortfall in that year to one of £0.6m.

2 Conclusions and Reasons for Recommendation

- 2.1 This report is intended to set out the options which are available to tackle the Council's identified financial shortfall over the period of the current MTFP which following Council in February amounts to a cumulative shortfall of £1.6m. On the basis that the measures outlined in this report are actioned and achieve the required level of saving then the cumulative shortfall falls to one of £0.6m. Given the extent of the savings to be secured and the residual shortfall it is important that the Council progresses at the earliest opportunity to action those savings identified and to identify further opportunities to either grow income, or to reduce the underlying level of expenditure.

3 Consultation and Equality Impact

- 3.1 There are no issues arising directly from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 Alternative options are considered throughout the report. Given the Council's legal obligation to secure a balanced budget there is no option other than to work to identify addition sources of income, or to reduce the underlying level of expenditure.

5 Implications

5.1 Finance and Risk Implications

- These are covered throughout the report.
- This report is intended to assist in managing the Strategic Risk that the Council will not be able to balance its budget over the period of the current MTFP.

5.2 Legal Implications including Data Protection

- The Council has a legal requirement to secure a balanced budget. This report sets out the measures that are being put in place to ensure that the Council remains in a position to meet that obligation over the period of the current MTFP (ending March 2019).
- There are no data protection issues arising directly from this report.

5.3 Human Resources Implications

5.3.1 None arising directly from the report.

6 Recommendations

- 6.1 That Cabinet notes the report and in particular the financial position following the Council meeting of February 2016, and the proposed response to the New Homes Bonus consultation paper.
- 6.2 That Cabinet endorses efforts to secure an increase in the number of new homes and to facilitate business growth within the District boundaries.
- 6.3 That Cabinet notes the continuation of vacancy management arrangements which will be used in conjunction with the Transformation Programme to secure efficiency savings.
- 6.4 That Cabinet endorses the early implementation of the Leisure proposals in respect of Eckington and Dronfield and authorises officers to commence a procurement process, with a report brought back to Cabinet to secure approval to a detailed scheme.
- 6.5 That Cabinet requests officers to continue with work to identify funding opportunities to replace the current Leisure facility at Sharley Park with a new facility.
- 6.6 That Cabinet requests officers to explore options to secure a longer rental stream from letting out parts of the Mill Lane building.
- 6.7 That Cabinet approves the recommendation to utilise some £25,000 of the Invest to Save funding to commission a site brief in respect of Ankerbold Road, with the outcome of that work to be reported back to Cabinet.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No (The only financial commitment is the £25,000 agreed in respect of commissioning a site brief at Ankerbold Road).
District Wards Affected	None Directly at this stage.
Links to Corporate Plan priorities or Policy Framework	Any capital receipts secured as a result of any sale would be utilised to fund a range of Corporate Plan priorities as agreed by Members.

8 Document Information

Appendix No	Title
1	Summary of Financial Position and Recommended Options
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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Appendix 1

SUMMARY OF FINANCIAL POSITION OVER PERIOD OF CURRENT MTFP

	2016/17 £000's	2017/18 £000's	2018/19 £000's
Efficiency Target / Budget Shortfall	395	1,544	1,931
Measures Agreed by Council 15 February 2016			
Increase in Council Tax (2016/17)	(102)	(102)	(102)
Repayment of Debt – Saltergate	(100)	(100)	(100)
Accelerate Reduction in Local Council Tax Support Scheme to Town and Parish Council's	0	(47)	(94)
Revised Shortfall following Feb 2016 Council	193	1,295	1,635
Savings Proposals			
NNDR Growth Target	0	0	0
Vacancy Management	(50)	(50)	(50)
Transformation, Secondments & Joint Working	(150)	(300)	(450)
Property Rationalisation Savings	0	0	0
Repayment of Debt from £1m asset sale			(100)
Receipt of HCA 'dowry' for land at Avenue		(200)	(200)
1.95% Council Tax Increase (2017/18)		(104)	(104)
1.95% Council Tax Increase (2018/19)			(106)
Revised Shortfall following Implementation of Identified Options	(7)	641	625