

## **BUDGET AND PERFORMANCE PANEL**

### **The Effect of the Current Economic Climate and Changes to Planning Legislation on Related Revenue Coming into the Council**

**26 March 2013**

### **REPORT OF THE HEAD OF REGENERATION AND PLANNING**

#### **PURPOSE OF REPORT**

To brief the panel on the most significant impacts of the current economic climate and changes in planning legislation on income received by the Council relating to its Regeneration and Planning function.

This report is public.

#### **Recommendations:**

- (1) **That the report be noted and that Members consider any comments they would wish to make.**

#### **1.0 Introduction**

- 1.1 The economic downturn, which began in 2008, had wide ranging impacts on the world economy. Those impacts affect almost every strand of everyday life so it is difficult, when trying to evaluate how revenue to one type of organisation has been affected, to cover all the potential impacts comprehensively. Some impacts were immediate such as building companies, negotiating with the council to submit development proposals, suddenly going into receivership. Others were gradual such as the reduction in economic activity giving rise to a decline in planning and building control income through fees for applications.
- 1.2 A summary of the most significant impacts targeted at revenue streams is the best that can be achieved realistically with the trends currently being observed providing commentary to try and plan for the future.

#### **2.0 Detail**

- 2.1 **External Funding Programmes.** Shortly after the general election the Government abolished the North West Development Agency and with it went a number of funding streams for regeneration activity. Historically, the City Council has performed well in

attracting external funding for regeneration projects with the support of the NWDA. In addition, the funding allocations administered by the Homes and Communities Agency and the Regional Housing Pot were removed. As a consequence of these fiscal measures key projects which no longer had access to regeneration funding were Lancaster Science Park, the Chatsworth Gardens Housing Exemplar scheme, and other continuing housing regeneration opportunities in the West End of Morecambe. It is difficult to place exact figures on the amount of funding potentially lost because the next stage of funding had not been agreed for these projects. However, as a guide, around £7m might have been obtained for infrastructure on Lancaster Science Park and around £2.3 m was originally sought for the housing exemplar scheme.

- 2.2 The abolition of the NWDA has however been mitigated in part by the establishment of a Local Enterprise Partnership for Lancashire which is supported in secretarial terms by the County Council. The LEP has been allocated funds to distribute on the basis of local economic priorities. It should be noted that the funds available to the LEP for allocation are much smaller than those which were previously available to the NWDA, and that bids for funding are usually made for loans rather than grants. The City Council's officers have been working closely with the County Council's Economic Development arm to ensure that schemes in Lancaster district which have major regeneration potential have access to these funds. In addition to the LEP there have been various sources of funding for regeneration projects which officers have sought to access using the bidding experience developed over many years. The Homes and Communities Agency have been particularly supportive in providing funds. By December 2012 £3m in additional external funding had been raised for regeneration work since the abolition of the NWDA and £4M Growing Places loan facilitated for the clean up of Luneside East. A further "in principle" commitment to £6m has been given in relation to other schemes.
- 2.3 Members should note that when bidding for external funding, the Council must ensure that it does not commit itself to match funding that cannot be afforded or does not have the appropriate approval. Either match funding in officer time or with property match is the normal criteria or no match funding requirement at all. Members should also note that the City Council's capacity to plan, project manage and be the accountable body for projects has reduced in line with the Council's financial position.
- 2.4 **Section 106 Contributions.** With a reduction in the number of major planning applications and the viability of development schemes suffering as a result of the economic climate, there has been a reduction in the level of income to fund mitigation measures through Section 106 agreements but this has been sudden in 2012/13. Until then since 2008/9 income has remained steady at an average of £500k pa. Although this is not an easily forecasted income stream a certain trend analysis is evident. With brown field development or schemes which require high infrastructure levels it is not uncommon for viability appraisals now to demonstrate that previously affordable contributions to travel and transport infrastructure can no longer be afforded. Even commuted sums to help fund affordable housing schemes are being asked to be waived for brown field development. There are currently pre application discussions taking place in relation to the majority of major brown field sites which in theory should give rise to a return to the normal level of section 106 contributions, however if viability issues remain key to whether a development can be afforded or not a lower level of contributions can be expected.
- 2.5 Another major casualty of the current economic climate has been the potential to create a standard charging regime for Community Infrastructure Levy. The levy

(commonly referred to as CIL) would enable pools of funds to be created to pay for identified infrastructure deficits in the district such as schools or community facilities. CIL regulations would allow a standard charge usually based on floor space in development schemes. The creation of a CIL charge has to be undertaken using prescribed methodology as part of a Local Plan. Part of the methodology requires councils to properly assess how viable a charge would be against realistic land and development values in an area. This work has been carried out in association with the current work for the Lancaster District Local Plan. The evidence has demonstrated that in the current economic climate a Community Infrastructure Levy would render development schemes unviable in all areas other than the high value, but undevelopable northern borders of the district. There is currently no prospect of building a CIL fund therefore associated with new development.

- 2.6 **Reductions in Planning Fee income.** Between 2008 and the end of 2012 fee income has steadily reduced from £575k in 2008 to £350k anticipated for 2012/13. This has not simply been because of a general reduction in the number of planning applications. Changes to fee structures to reduce costs for developers, for example reducing renewal fees to a small flat rate (for example £575 for major applications) has had a significant impact on fee income whilst having no impact on workload in individual cases. In November 2012 fees were raised nationally by 15% to recognise the potentially detrimental impact of reduced fee income on capacity in planning services. In April 2010 staffing levels in the former Planning Service were cut in recognition of reduced fee income. An increase in non fee earning workload since that time and a general increase in complexity of applications has put the service under pressure and currently a number of temporary contracts are being operated to ensure that the significant number of development schemes in the pre application process can be nurtured with professional advice.
- 2.7 **The Building Control Trading Account.** The Council provides a Building Control service which is subject to competition from the private sector. It has an element of statutory duties which have to be carried out at cost. Its fee earning trading account relates to vetting applications for Building Regulations approval and inspecting building works. In addition to a down turn in work associated with the economic climate, increased local competition has also had a significant impact on the trading account. Building Regulations fee income of £403K in 2007/8 had reduced to 306K in 2009/10. In 2010 staffing numbers were drastically reduced to address the deficit and a further abolition of two vacant posts now leaves only three officers providing this service. Notwithstanding these actions fee income decreased to £116K in 2011/12. The time has come where the council will have to consider ending the provision of an independent building control service in the future and a report is being prepared to assess how this can be done and seek a decision on moving forward.
- 2.8 To further reduce the number of planning controls the Government is consulting on proposals to increase the level of “**Permitted Development Rights**” for extensions to houses. For a temporary period, potentially of up to three years, it is suggested that planning permission may no longer be needed for single storey extensions of between 4 and 6 meters in length. The government believes that this will increase the incentive to build and assist in revitalising the construction industry. Whilst this will also mean that further fee income (albeit in the cheapest categories of application) will be lost, it is your officers view that there will be a consequential increase in planning enforcement casework as low tolerance to such developments leads to an increase in enforcement complaints requiring investigation.
- 2.9 **Civil Engineering Projects.** The City Council is the riparian owner of Morecambe Promenade and also has a responsibility for land drainage regulation to assist the

County Council as Flood Management Authority. This means that the Council's small team of engineers can access funding from bodies such as the Environment Agency to maintain and improve coastal and flooding defences. Access to funds has improved recently with £100k allocated to undertake a coastal strategy review and design works to repair the coastal defences in Morecambe. A funding bid for £1.4m is in place for 2013/14 to start a phased programme for replacement of Morecambe's wave reflection wall.

- 3.0 **Conclusions.** The economic down turn and the Government's response to it through both the planning system and reductions in public expenditure (both capital and revenue) has had a significant impact on the Council's income and capacity. This has meant adjustments to its ability to provide services in the area of Planning and Regeneration. The level of business activity in this service area has not remained low during the recession however and current interest in development and investment in the area is at very high levels. The dilemma for the Council is that if it is unable to provide expertise and capacity in this service area because of the need to reduce expenditure, it could have the effect of prejudicing the delivery of the very investment needed to effect economic recovery in the area.

#### **FINANCIAL IMPLICATIONS**

The report highlights a number of areas which are facing financial uncertainty over the forthcoming years. The latest approved budget (Council 27<sup>th</sup> February 2013) takes account of these concerns as far as possible and base budgets have been updated with the latest projections available.

#### **SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been consulted and has no further comments.

#### **MONITORING OFFICER'S COMMENTS**

The monitoring Officer has been consulted and has no comments to make.

#### **BACKGROUND PAPERS**

**Contact Officer: Andrew Dobson**  
**Telephone: 01524 582303**  
**E-mail: adobson@lancaster.gov.uk**  
**Ref:**