**ITEM No …2………..**

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| **REPORT TO:** | **CITY DEVELOPMENT COMMITTEE – 28 OCTOBER 2019** |
| **REPORT ON:** | **CITY DEVELOPMENT BUDGETARY PRESSURES** |
| **REPORT BY:** | **EXECUTIVE DIRECTOR OF CITY DEVELOPMENT** |
| **REPORT NO:** | **350-2019** |

## 1 PURPOSE OF REPORT

1.1 This report is to update members on the ongoing challenges facing the revenue budgets managed by City Development and measures being taken by Council Officers to address the areas where a recurring overspend situation has been identified. The report highlights that a significant proportion of the overspending budgets have limited potential to be corrected in the short term, and identifies long-term approaches that are being developed to deliver a balanced budget in future years.

## 2 RECOMMENDATION

2.1 It is recommended that the Committee:

a note that the overall City Development Budget 2019/2020 projected revenue outturn as at July 2019 is projecting an overspend of £3.564m against the adjusted 2019/2020 Revenue Budget,

b remits the Executive Director of City Development to continue to review all aspects of operations within the Service to minimise overspend within 2019/2020; and avoid any new revenue commitments which cannot be accommodated within existing revenue budgets;

c remits the Executive Directors of City Development and Corporate Services to explore and take all reasonable actions to address these historic overspends as set out in the report, through the 2020/21 Revenue Budget setting process;

## 3 FINANCIAL IMPLICATIONS

3.1 A number of Council wide budgets are managed by City Development including Corporate Property, and the Service is significantly dependent on income for a large part of its operational budget. Cyclical economic issues relating to the UK economy and wider factors such as Brexit impact on earned income including property income.

3.2 There has been a historic pattern of the City Development controlled budgets set out above resulting in a pattern of financial out-turns which exceed budget. The factors vary from year to year, and will particularly be influenced by the extent of winter maintenance required, with a harsh winter requiring additional corporate investment. The table below highlights the actual overspends in the previous 3 financial years:

| | **Financial Year** | | |
|---|---|---|---|
| | **2016/2017** | **2017/2018** | **2018/2019** |
| **City Development Overspend (£000)** | **1,688** | **3,370** | **3,183** |

3.3 The Council Management Team has put in place measures in recent years to manage cost pressures within the corporate budgets to ensure that the overspend is contained as far as practical, and that a medium-term strategy is developed to work towards a balanced budget. This included provision of an additional investment for property maintenance, accelerated demolition and disposal programme for surplus properties, and improved commercial management of the Council's leased out business property portfolio. Although mitigation measures have been put in place, these have limited impact in the short-term as the majority of overspending areas require medium/long-term interventions through reduction in the occupied property portfolio and the annual budget setting process. The Council's transformation programme C2022 includes the 365 Schools initiative which will contribute to the more efficient use of Council property assets, facilitating further reductions in property costs.

3.4 The Corporate Property account represents 37% of the overall City Development's gross expenditure budget in 2019/20, and delays in delivering the closure of buildings which have previously been identified as savings is a major factor in the overall financial position facing the Council. The creation of an enhanced corporate Building Merger Programme will now focus on historic property related savings and the development of a future programme of mergers and closures for consideration as part of the 2020/2021 budget.

3.5 The following amounts were added to the City Development revenue budget for 2019/20, to help address recurring pressures within property budgets and to ensure that adequate budgetary provision was available to meet new expenditure commitments.

| | £k |
|---|---|
| Property Budgets (including V&A) | 699 (in addition to £500k added in 2018/19) |
| Allowance for Energy Costs Inflation | 168 |
| Regional Performance Centre | 193 |
| Menzieshill Community Centre | 228 |
| | 1,288 |

In addition, £100k was added to provide a marketing budget for the Waterfront.

3.6 The Property Development & Improvement Programme within the Capital Plan has been increased by £1m per annum to facilitate lifecycle improvements to Council properties and thereby reduce future maintenance costs. In addition an additional one-off £1m has been added in for the fit out of units to attract tenants.

3.7 The Executive Director of Corporate Services has put in place full monitoring of committed savings, tracking the implementation of both historic and current savings. City Development's savings for 2019/20 of £565,000 have now been implemented and are in the process of being realised.

3.8 The Council's approved Long-Term Financial Strategy states that services will be expected to operate within the limits of their overall revenue budget allocation and that cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets. Whilst the City Development service is taking action to address the projected overspend, it is evident that it will not be possible for the service to achieve a break-even position in the 2019/20 financial year given the relative scale of the problem. The Council Management Team are, however, taking action to ensure that the 2019/20 outturn for the Council as a whole is below or in line with the budget. In this connection, elected members will be aware that the latest revenue monitoring report shows that the overall projected overspend for the Council has reduced from £4.796m to £2.809m. It is anticipated that this downward trend will continue as further actions are implemented to reduce spend across services.

## 4 BACKGROUND

4.1 The Policy & Resources Committee of 19 August 2019 discussed the financial position in the budgets managed by City Development and it was agreed that a report should be prepared exploring this issue in more detail, and highlighting measures being taken to address the financial position.

4.2 The City Development Management Team has been working with Corporate Services for the past year, to investigate the overspend to identify the root causes and look at effective ways to contain cost pressures and develop a long-term strategy to tackle recurring financial pressures. This report gives an update on the nature of these challenges and the work being carried out to address the issues. The following sections highlights the main recurring financial pressures with the current position of each and the action being taken by City Development officers to mitigate cost pressures. These recurring pressures total around £3.445m and represent the vast majority of the current total projected overspend of £3.564m

**5 PROPERTY PORTFOLIO**

5.1 The value of the Council's property asset portfolio (excluding Housing Revenue Account (HRA) assets and infrastructure) is in the region of £900m. City Development currently manages over 600 operational assets for the Council and L&CD, and is responsible for the repair and maintenance costs, energy, cleaning and Non-Domestic rates of these properties. Total budgeted gross expenditure for the Council and L&CD occupied properties is £15.18m in 2019/20, an increase of just over 18% from the 2017/18 budget

5.2 In the last 3 years City Development's property section has disposed of surplus property and land realising over £7m of capital receipts. During this period, the Service has overseen the demolition of 14 surplus properties, contributing to a reduction in overall revenue running costs.

Measures Currently Being Implemented Include:

- Further reduction in cost pressures will be realised through the current demolition programme including the former Menzieshill Community Centre, Strathcarron House, Queen Street toilets and on completion of the relocation of the remaining staff, Lochee Child & Family Centre. Disposal of Downfield Primary School will shortly be completed removing costs associated with holding the site vacant. The demolition or disposal of these properties will result in cost avoidance of around £200k.

- Surplus property at Rockwell Secondary School, Bell Street Music Centre and 26-32 North Lindsay Street are currently being marketed for disposal for development and this will remove the costs associated with keeping these properties vacant.

- A revised strategy for redevelopment of Construction Services' Clepington Road site is being considered to allow historic saving to be delivered. This will refurbish and re-use existing property on the site to relocate staff, workshops and storage facilities, allowing the current property which is in poor condition to be demolished. A business case will be developed for possible inclusion in the Capital Plan.

**6 PROPERTY - OPERATION & REPAIRS (RECURRING DEFICIT £700K)**

6.1 The cost of keeping Council properties in appropriate condition has risen significantly in recent years through a combination of changes to legislative requirements such as Health & Safety, Fire Risk and Asbestos, and management of the PPP schools contract, and this has contributed to the budget deficit on the Council Corporate Property budget.

6.2 Recognising these trends which increase property maintenance costs, Council Officers have restricted reactive repairs and maintenance and have carried out predominantly essential Health & Safety repairs over the last 3 years. This level of expenditure reflects all properties being maintained to a compliant level.

Proposed Mitigation Measures

6.3 The current use of Dundee House has been reviewed with Services and through this consultation it has been established that the opening hours of the facility can be revised reducing operational costs and saving energy usage, which will deliver savings of £86,000 per annum on property costs. A review of staffing across operational properties is also being undertaken to ensure the most efficient timetabling of staff shift patterns is being achieved resulting in further cost reduction.

6.4 A number of steps are being taken to address the cost pressures on property budgets by:

- a value for money exercise has reduced third party expenditure by bringing Fire Risk Assessments in house;
- developing a collaborative approach to ensure capital and revenue budgets are utilised most effectively to reduce the reactive maintenance recurring cost pressure; and
- a business case for an improved Property Asset Management system is currently being finalised for possible inclusion in the Capital Plan, and this will, if implemented, reduce costs involved in managing both building maintenance and commercial aspects of the property portfolio, allowing further efficiencies to be delivered.

## 7 PROPERTY – COMMERCIAL INCOME (RECURRING DEFICIT £400K)

7.1 The City Development Property Section also manages the Council's commercial portfolio totalling over 500 properties with the majority leased out to third parties. This portfolio includes 232 shops, 174 industrial units and 25 offices, and is actively managed to maintain occupancy levels at or above normal industry standards of around 90%, with the remainder representing natural turnover of tenancies. In the financial year 2018 - 2019, the revenue income achieved from the commercial portfolio was circa £5.5 million, with the team reviewing rental levels each time a letting occurs to ensure that they do not fall behind open market values.

7.2 The Council also owns a number of long-term investment properties, and these include the Wellgate Centre ground lease. Due to trading conditions nationally, the return on this retail investment is gradually diminishing. Other historic property income issues will be offset by future property income as new properties secure tenants. Within Whitfield, The Crescent retail units have been slower to let than was originally anticipated, although current house building will assist in further lettings being secured.

Proposed Mitigation Measures

An enhanced focus on marketing commercial property has been delivered over the last 12 months including:

- other long-term investment properties have recently been developed including Earl Grey House at Site 6 and units within the railway station, and the Council agreed as part of the 2019/2020 budget setting process an additional £100k revenue budget allocation for marketing. Promotional activity is ongoing and prospective tenants are currently considering options for fit-out and lease terms;
- a number of the new properties were completed to a basic shell level. Although interest in the spaces is strong, the level of fit out required to make the units viable can be significant. Through the revised Capital Plan, provision for an additional £1m has been made to allow the Council to fund appropriate fit-out to ensure the units are economically attractive for prospective tenants; and

- the Invest In Dundee website has been significantly upgraded, including a new property search function to improve marketing of remaining vacant units, and specialist external agents are commissioned for properties that require national marketing.

**8 PLANNED RATIONALISATION OF PROPERTY (RECURRING DEFICIT OF £800K)**

8.1 To address the challenges of managing a portfolio of this scale, the Council requires to review the entire estate occupied by the City Council and L&CD to make most effective use of property assets allowing surplus property to be disposed of. Property rationalisation has realised some revenue budget savings in previous years, and it is now proposed to enhance this with a senior, strategic Building Merger & Property Rationalisation Board leading this work. Actual property expenditure (excluding schools and HRA), splits approximately 75%/25% between DCC and L&CD occupied properties.

<u>Proposed Mitigation Measures</u>

8.2 The Building Merger & Property Rationalisation Board will be led by the Head of Design and Property and senior officers from all Council Services and L&CD will be represented, to develop a strategy to optimise the Council and L&CD use of property and reduce the property footprint, delivering savings in Non-Domestic Rates, planned and reactive maintenance, cleaning, energy consumption and Health & Safety compliance expenditure.

8.3 An initial assessment is currently being carried out by the group to ensure all Services for each client will continue to be delivered combined with developing a strategy to:

a deliver historic unimplemented closures;

b merge and close properties where service delivery can be amalgamated in one facility;

c transfer standalone support service functions to other buildings; and

d identify surplus and vacant properties with capacity to accommodate teams from other services.

8.4 Other measures include:

- a review of use of external consultants, ending contracts where work can be carried out by existing City Development staff;

- capital investment where appropriate to deliver revenue savings including introduction of CCTV to reduce security costs;

- creation of a covered salt barn at Marchbanks to reduce salt wastage; and

- a refurbishment of Bell Street Car Multi Storey Park including enhanced CCTV is currently being planned which may deliver significant savings in security costs and improve income by improving the customer experience.

**9 STREET LIGHTING (RECURRING DEFICIT £645K)**

9.1 The LED Street Lighting Replacement programme was initiated in 2017 to improve the quality of street lighting throughout the city, generate revenue budget savings through a reduction in energy consumption and reduce the Council's carbon footprint. The programme was accelerated to 2 years rather than 5 years to deliver these benefits earlier. The non-financial benefits of the programme are being delivered, in particular there has been a significant reduction in energy consumption. Once the programme is fully implemented the Council's energy consumption on Street Lighting will have reduced by over 60% when compared to

2012/13 levels. In terms of the financial benefits, it has not been possible to realise the level of budget savings envisaged due to changes in a number of assumptions that were included in the original business case.

9.2 To date, 12,800 lanterns from a total of 18,000 have been changed to LED, delivering savings within the first year of the programme alone of 510,000 kWh/annum. This has helped avoid around £62,000 in energy costs if the LED programme had not been implemented.

9.3 Whilst some budget savings have been achieved, the programme has been more successful in terms of cost avoidance given the significant level of actual and projected inflation in the energy markets. A separate saving of £180k from the 2017/2018 budget was proposed through a proposed, new smart metering methodology. Changes in the deregulated electricity market meant that this saving could not be realised.

9.4 Despite successes from the LED Street Lighting Programme, the combined impact of these undeliverable savings is that the forecast recurring deficit in the Street Lighting budget of £645K will require to be addressed through the 2020/2021 budget process.

**10 STAFFING (RECURRING DEFICIT £500K)**

10.1 In setting budgets over the past 3 years, ambitious staff reduction targets have been established totalling circa £1 million. The City Development Management Team actively manage staff vacancies. Almost half the staff (47%) in City Development generate income either through fee recharges or external income, and the management team reviews each vacant post to consider whether its deletion would impact on levels of income. The staff savings target equates to around 20% of non income generating staff in City Development.

10.2 As staff turnover has been lower than anticipated it has not been possible to deliver these savings as quickly as originally anticipated, though over half of these savings (£510k) have been delivered in the past 12 months. This was achieved by reducing 16 FTE posts through non-filling of vacant posts, redeployment across the Service, staffing restructure and voluntary early retirement and early retirement. The remaining half of the staff savings will be delivered as opportunities arise.

Proposed Mitigation Measures

- All staff vacancies are fully reviewed by the service management team and a significant control on recruitment is being implemented and opportunities for voluntary early retirement continue to be investigated and granted where appropriate.

- Effective control of any non-essential overtime and standby payments.

- Staff are also being redeployed across the Service to assist in areas of higher workload, with ongoing reviews of current staff structures being carried to identify further efficiencies, resulting in a leaner staffing structure for the Service.

- The Head of Design & property is also putting in place enhanced measures to ensure that full recovery of fees is ensured through recharges.

**11 PLANNING AND ECONOMIC DEVELOPMENT (RECURRING DEFICIT £400K)**

11.1 Budgets in Planning and Economic Development are smaller scale than Property and Roads and Transportation and therefore financial pressures tend to be less than in other parts of the service. In the current financial year, recurring income on the performance from historic external funding targets that can no longer be achieved of £400k have been offset by underspends in Employability. In future years it is anticipated that employability budgets will be fully deployed to maximise the Council's support for those without work and drawdown of external funds, and the management team will work, through the 2020/2021 budget setting process to address recurring income under performance.

11.2 In the short to medium term, there is a slight downturn in the planning and building warrant fee income. It appears that this may be linked to uncertainty in the investment markets relating to Brexit. Given Dundee's strong reputation and recent growth in housebuilding it is hoped that this is a short-term issue, and that once certainty is achieved around the UK's future relationship with the EU, property markets will regain confidence and fee income will revert to higher levels.

Proposed Mitigation Measures

- The service is currently not promoting Economic Development and Employability Grants in order to deliver an in-year saving, and this will be considered further through the 2020/2021 budget round.

## 12 POLICY IMPLICATIONS

12.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## 13 CONSULTATIONS

13.1 The Council Management Team were consulted in the preparation of this report.

## 14 BACKGROUND PAPERS

14.1 None.

Neil Martin
Acting Head of Design and Property

Robin Presswood
Executive Director of City Development

Dundee City Council
Dundee House
Dundee

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