

POLICY, FINANCE & ADMINISTRATION COMMITTEE

7 DECEMBER 2017

REPORT OF CORPORATE DIRECTOR

UPDATED REPORT - FUNDING FOR THE MELTON MOWBRAY DISTRIBUTOR ROAD (MMDR)

1.0 PURPOSE OF REPORT

- 1.1 To update the committee with regard to the submission of an Outline Business Case for the development of the Melton Mowbray Distributor Road (MMDR) and on discussions with Leicestershire County Council (LCC) to share the burden of the funding of the MMDR that will not be met from external sources and to seek approval to work with them further on identifying a solution.

2.0 RECOMMENDATIONS

It is recommended that:-

- 2.1 The Committee is asked to note this report and, following receipt of the updated report, consider the outcome of the discussion between the Borough and County Councils and whether to support the construction and delivery of the Melton Mowbray Distributor Road.

Subject to that consideration, to delegated authority to the Chief Executive in consultation with the Corporate Director and Chair of the Policy Finance and Administration Committee to enter into an agreement with LCC to financially support the construction and delivery of the Melton Mowbray Distributor Road.

Revised Recommendations

- 2.1 To financially support any unfunded element of the cost of the construction and delivery of the Melton Mowbray Distributor Road through a combination of NHB, Business Rates and Council Tax as appropriate that is generated through the delivery of the road.
- 2.2 Subject to the approval of the financial support delegated authority be given to the Chief Executive in consultation with the Corporate Director and Solicitor to the Council to develop the associated legal agreement with the Leicestershire County Council for submission to the Council for final approval.

3.0 KEY ISSUES

- 3.1 The Committee will be aware that the MMDR has been the subject of detailed discussions at member level and is a key infrastructure scheme in the Local Plan. A report on the MMDR scheme is due to go to LCC Cabinet on 12th December 2017, seeking delegated powers to submit the outline business case for the MMDR to the Department for Transport (DfT). The report will also consider the financial implications and funding for the road. A copy of this report will be circulated to

members of this Committee as soon as it is available on 1st December 2017.

A copy of the LCC cabinet report is attached as Appendix A.

- 3.2 Based on current estimates the scheme is anticipated to cost in the region of £74m (including £4m scheme development costs). It is anticipated that the DfT will expect a 'local contribution' to the overall cost This can be partly sought from developers but would leave a quantity unfunded at this stage requiring funds from public bodies.
- 3.3 Funding can also be sought from the Business Rates Pool and the Business Rates Pilot should that be successful. In addition LCC are requesting that any shortfall in funding be allocated from both Councils New Homes Bonus (NHB) and Business Rates growth that is generated by the development of the road. This would be for the sum that is estimated to remain unfunded plus the additional cost of any overruns on the estimated costs and any shortfall from the assumed developer contributions.

It is also proposed that the feasibility of Council tax being included in the funding arrangement should be assessed.

- 3.4 LCC will fully fund the scheme costs up front and will only seek repayment once the additional business rates and NHB are generated. This would take into account any changes in the method by which these grants are allocated by central government. They propose however to add inflation and interest to any unfunded balance. It is likely that this method of funding major infrastructure may be rolled out across the county by LCC; however Melton is the first district council to be approached to date. The arrangement is to be backed up by a Memorandum of Understanding (MOU).
- 3.5 The Chief Executive and Corporate Director are meeting with LCC to discuss the position further on 4th December 2017. A number of issues have already been highlighted with LCC, and will be discussed further and an update on the outcome will be provided in an updated report to members after that meeting and verbally at the Committee.
- 3.6 LCC are looking for a Memorandum of Understanding to be signed in time for their cabinet meeting on 12th December 2017 and therefore subject to members views delegated authority is sought to enter into an appropriate agreement with them.

The meeting has clarified that LCC are requesting letters are exchanged prior to their cabinet meeting on 12th December 2017 agreeing to in principle support the road financially and agreeing the Heads of Terms. The meeting clarified the aspects that both parties would wish to see in the Heads of Terms. A copy of the draft Heads of Terms is attached as Appendix B. Following this exchange further financial modelling will be undertaken in order to develop the detail that would be required in the final legal agreement.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 The current proposal has a potential impact on future core funding for the council which is currently being modelled and an evaluation of this impact will be provided in the updated report. The MMDR is key to the necessary economic and housing growth the borough needs for the future as set out in the local plan and must be

facilitated to proceed at the necessary pace to drive this growth in the borough.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 The Council has suffered a significant loss of funding in recent years with RSG, a core funding stream, due to end completely from 2019/20 and the business rates baseline being set to be reduced from 2020/21 to continue the funding cuts. The future funding formula for NHB is also uncertain and could reduce even further. NHB and business rates are essential to the council to support future service delivery and are an essential part of the councils MTFS. Any agreement which utilises part of this funding has the potential to impact on the council's ability to deliver services in the future. It is however recognised that the delivery of the road is crucial to the economic wellbeing of the borough and the Council's finances moving forward as such the council needs to strike a balance between the need to fund the road whilst ensuring the Council's future financial security is not compromised. It should be noted that the Council has previously set aside funding from the NHB to fund infrastructure whilst this was not utilised for core service delivery and the final amount in the reserve of £400k was provided to the LCC to support the development of the business case for the road.
- 5.2 The financial implications will be covered in more detail in an updated report to the Committee following the meeting on 4th December 2017 and verbally at the meeting.
- 5.3 Initial financial modelling has been undertaken which shows that there are sizeable gains generated through the additional homes and businesses that will be enabled by the delivery of the road. However the modelling has also highlighted the need for caution in ensuring that funding is not utilised for the road to the detriment of the council's baseline funding and future growth that is required to support future service delivery. This initial modelling has highlighted the need for a baseline to be incorporated into the agreement to limit the level below which retained funding from the grants utilised to support the road should not fall below. This has been recognised by LCC and as such provision is made in the draft Heads of Terms.
- 5.4 There is a risk of overspend which the Council is being asked to share and also there is a high likelihood of changes to the funding regime for the grants used to support the funding of the road. As such whilst the LCC were not willing to include a cap on the amount the Council would be expected to fund it was agreed to include a trigger point for a review in certain circumstances.
- 5.5 Further financial modelling will be required to assess the detail to be included in the legal agreement such as the level of the baseline, the mechanism for calculating the business rates growth generated by the road and the homes that would be included in the NHB and council tax calculation as being directly enabled by the road.
- 5.6 To give an indication of the scale of the contribution the initial modelling shows a potential contribution from the Council of £8.9m over the period 2020 to 2036 (£7.2m from NHB and £1.7m Business rates) a cap could limit this to £7.6m overall. This would represent just under 24% of these funding streams. However it should be stressed these are very crude initial estimates based on a number of assumptions still to be refined.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 A Memorandum of Understanding is requested to underpin the agreement.

Draft Heads of Terms are appended and a legal agreement will underpin the arrangement

7.0 COMMUNITY SAFETY

7.1 None directly arising as a result of this report.

8.0 EQUALITIES

8.1 None directly arising as a result of this report.

9.0 RISKS

9.1 The risks are set out below.

L I K E L I H O O D	A Very High			2	
	B High				
	C Significant				1
	D Low				
	E Very Low				
	F Almost Impossible				
		Negligible	Marginal	Critical	Catastrophic
		1	2	3	4
		IMPACT			

1	LCC do not make the necessary submission to DfT due to agreement not being reached over funding
2	Despite the increased council tax generated by the increased housing the loss of NHB and business rates impacts on the Council's future financial health.

Provision is included in the heads of terms to enable the council to have oversight

of the project.

10.0 CLIMATE CHANGE

10.1 None directly arising as a result of this report

11.0 CONSULTATION

11.1 No further consultation has been undertaken on this proposal.

12.0 WARDS AFFECTED

12.1 All wards are affected.

Contact Officer D Garton, Corporate Director

Date: 24th November 2017

Appendices : Appendix A
 Appendix B

Background Papers: Correspondence with LCC

Reference : X: C'tee, Council & Sub-C'tees/PFA/2017-18/07-12-17/Melton Mowbray Distributor Road