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Public Accounts Select Committee Agenda

Tuesday, 5 July 2016

7.00 pm,

Civic Suite

London SE6 4RU

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Part 1

Item		Pages
3.	Income Generation - 6 month update presentation	1 - 14
4.	Medium Term Financial Strategy – Housing Revenue Account	15 - 18

Public Accounts Select Committee Members

Members of the committee, listed below, are summoned to attend the meeting to be held on Tuesday, 5 July 2016.

Barry Quirk, Chief Executive
Thursday, 23 June 2016

Councillor Jamie Milne (Chair) Councillor Chris Barnham (Vice-Chair) Councillor Abdeslam Amrani Councillor Brenda Dacres Councillor Amanda De Ryk Councillor Mark Ingleby Councillor Roy Kennedy Councillor Jim Mallory Councillor Crada Onuegbu	
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Income Generation Review Public Accounts Select Committee

Lisa Bibby
5th July 2016

Purpose



- To understand where we are
- To understand scope for future income generation to help with financial challenges
- Inform future strategy and action planning



Strategic developments to date



- Income Generation Board
- Income Generation Policy
- Fees and Charges Review
- Strategic Review of Schools Traded Services



Income generation activity underway



- Regulatory restrictions for the HRA, DSG and Capital Programme and review of treasury management
- Sundry debtors collection
- Full cost recovery for discretionary services
- Controlled parking programme
- Advertising
- Wireless concessions
- Shared services
- Property investment and development



Public Accounts Select Committee Review



- consistent implementation of the Income Generation Strategy
- commercialisation
- engagement of and support for staff
- role analysis and best use of resources
- clarity on levels of subsidy
- learn from good practice elsewhere



Income Generation Review

Stage 1



- Provide a clear description or map of current income generation activities
- Develop local baselines for each service area
- Map levels of related workforce commercial skills and expertise
- Identify officer perceptions of the strengths and weaknesses of current commercial activity
- Identify any potential barriers and resistance to change for the future.



Income Generation Review



Stage 2

- Undertake an environmental scanning exercise of local and national policy/developments relating to income generation and commercialisation
- Identify potential opportunities and options for future income generation services
- Propose a future basis for fees and charging to maximise income whilst minimising risk to the Council
- Identify potential new models of service delivery



Income Generating Activities In Scope



- licensing and approvals (e.g. planning approvals, entertainment licensing)
- charged for discretionary functions (e.g. leisure services, parking, transactional services for schools)
- core/statutory services sold to new markets
- income from increased asset utilisation, rationalisation and disposal
- developments/investment activities (e.g. energy schemes, property development)
- social corporate responsibility (e.g. sponsorship and donations)



Methodology



- Project team
- Officer engagement:
 - data and information collection
 - research interviews
 - workshops and engagement events
- Focus on culture as much as practice



Stage 1 progress



- Analysing income by service area and cleansing data
- Concluding and building on review of fees and charges
- Testing compliance against Income Generation Strategy expectations
- Identification and review of strategies and policies that support/create the right 'environment'
- Interviews with all HOS responsible for income generation, leads of specific income generation initiatives and those HOS responsible for strategies/support services (circa 26 officers)



Questions being asked of Office



- Knowledge and understanding of corporate policy context
- Service income generation scope, scale and value
- Perceived enablers and barriers

and if appropriate:

- Specific role of service to support and enable income generation corporately
- Current income generation review project



Early findings



- Financial system problematic
- Variable compliance with expectations of Income Generation Strategy
- Few policies, procedures and systems that proactively support effective and efficient income generation
- Perceived lack of clarity in vision, values and policy direction (to be commercial or not?)
- 'laissez faire' culture



Early Findings



- Some real creativity evidenced
- Some areas generating good levels of income
- Some good foundations to build on
- Openness to new ways of working
- Work already underway to address weaknesses identified as part of Schools Traded Services Review





- What are the values you would want to drive income generation behaviours?
- Should everybody be concerned with income generation or should we focus on areas with highest ROI?
- What's your appetite for risk?
- Are there any partners you would prefer to avoid?



13. HOUSING REVENUE ACCOUNT

- 13.1. The Housing Revenue Account (HRA) is a statutory account which sets the Landlord costs and income for the housing stock. The HRA now operates with a 30 year business plan which allows the housing strategy to be updated and implements long term planning on resources and asset maintenance.
- 13.2. The plan contains a long-term assessment of the need for investment in assets, such as Decent Homes and other cyclical maintenance requirements, as well as forecasts on income streams such as rents, in line with rent restructuring, and future developments. The plan also recognises certain risks. For example; the impact of government policy changes in respect of types of tenancy, rent levels, right to buy, pay to stay, and treatment of voids.
- 13.3. These risks are discussed below and officers continue to test the flexibility and robustness of the HRA to meet such risks and the implications of any further government policy changes.
- 13.4. As reported in the 2016/17 budget report, the HRA has been undergoing a major revision following the Government's announcement in the July 2015 of a 1% reduction in social rents to be applied each year for the next four years from 2016/17, contained in the Welfare Reform and Work Act 2016. The impact of the change in policy is a total reduction of forecast rental income within the business plan of £1.90m for 2016/17. The expected cumulative rent reduction over the next four years is £25.0m, with £374.0m being lost over the life of the 30 year business plan. As the Government's proposals are enacted by primary legislation, the authority has no choice other than to implement the rent reduction. In order to protect the business plan to provide the same level of investment and services, the reduction in income will need to be off-set though increased efficiencies and reprioritisation of investment requirements.
- 13.5. A review of investment needs and priorities has been undertaken, based on updated surveys and inflation estimates has enabled officers to produce a balanced plan, as set out in the attached appendix. Appendix 4 shows the detailed plan for the next five years, including the current year.
- 13.6. The Housing and Planning Act 2016 has presented the HRA with two further risks. The first the obligation of councils to make a contribution to the Treasury for the disposal of High Value Assets. Whilst the details are still to be determined, it is expected that this will operate by means of a formula from which will assess how much each Council should receive from selling high value voids every year. Councils will be expected to pay this sum to the treasury.
- 13.7. The second key risk arising from 2016 is the 'pay to stay policy' which requires tenants with a household income of over £40k per annum to pay 80% of market rents and those with an income over £50k to pay full market rents. This will present the Council with a significantly increase administrative burden although the Council will not be able to keep any of the additional income raised. This may lead to an increase in Right to Buy applications and higher void costs as tenants chose to move from the social housing sector.

APPENDIX 4

HOUSING REVENUE ACCOUNT 30 YEAR PLAN – YEARS ONE TO FIVE AS AT JUNE 2016

PROJECTED INCOME & EXPENDITURE STREAMS	SHORT TERM INCOME & EXPENDITURE FORECAST					
	YEAR	YEAR	YEAR	YEAR	YEAR	TOTAL
	1	2	3	4	5	1 to 5
	£M's	£M's	£M's	£M's	£M's	£M's
-						
Rents	68.4	70.8	73.1	73.7	71.7	357.7
Tenants service charges	4.5	4.6	4.6	4.6	5.7	24.0
Leasehold service charges	4.0	4.2	4.4	4.4	4.2	21.2
Hostel charges and grants	0.9	1.4	1.3	1.3	1.3	6.3
Major Works recoveries	1.2	1.2	2.2	2.3	5.5	12.4
Other income	3.9	4.1	3.0	2.5	1.5	15.0
Operating Income	82.9	86.3	88.6	88.8	89.9	436.6
Less:						
Management costs	-29.7	-30.2	-29.9	-29.2	-34.5	-153.6
Repairs & maintenance	-16.7	-15.4	-14.6	-14.2	-15.4	-76.3
PFI Costs	-4.7	-5.1	-5.3	-5.5	-5.4	-26.0
	-51.1	-50.7	-49.8	-48.9	-55.3	-255.8
Interest & other finance costs	-4.6	-4.5	-3.7	-3.6	-4.3	-20.7
Depreciation	-16.9	-21.8	-26.3	-30.1	-30.3	-125.4
Operating surplus/(deficit) after financing	10.3	9.3	8.8	6.2	0.0	34.6
RCCO	-3.2	-6.0	0.0	0.0	0.0	-9.2
Debt Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Interest on balances	0.2	0.2	0.4	0.6	0.9	2.4
Surplus/(deficit) after appropriations	7.3	3.5	9.2	6.8	1.0	27.9
Opening reserves	7.8	15.1	21.2	30.4	37.2	7.8
Other Reserve Contributions	0.0	2.5	0.0	0.0	0.0	0.0
HRA Reserves	15.1	18.7	30.4	37.2	38.2	35.7

CAPITAL PROGRAMME & RESOURCING	SHORT TERM CAPITAL PROGRAMME & RESOURCING					
	YEAR	YEAR	YEAR	YEAR	YEAR	TOTAL
	1	2	3	4	5	1 to 5
	£M's	£M's	£M's	£M's	£M's	£M's
Capital programme	36.2	44.3	51.0	19.4	28.6	179.6
Sheltered Housing	0.0	0.0	0.0	0.0	0.0	0.0
New Build construction	0.1	0.4	1.7	2.6	9.8	14.6
New Build ongoing capital costs	0.0	0.0	0.0	0.0	0.0	0.0
Capital programme slippage (RPI uplift)	0.0	0.0	0.0	0.0	0.0	0.0
Capital slippage	36.3	44.7	52.8	22.0	38.4	194.2
Funded By:						
MRR Opening Balance	-4.5	-12.7	-19.8	-29.4	-37.5	-103.9
Decent Homes Funding	-20.5	-24.0	-36.0	0.0	0.0	-80.5
RCCO	-7.1	-6.0	0.0	0.0	0.0	-13.1
Depreciation	-16.9	-21.8	-26.3	-30.1	-30.3	-125.4
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Capital shortfall	-12.7	-19.8	-29.4	-37.5	-29.4	-128.7
Debt Level	83.5	83.5	74.8	74.8	74.8	74.8

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