Ashfield
DISTRICT COUNCIL

Report To:	**SCRUTINY PANEL A**	**Date:**	**12 SEPTEMBER 2019**
Heading:	**SCRUTINY REVIEW: COMMERCIALISATION AND INCOME GENERATION**		
Portfolio Holder:	**NOT APPLICABLE**		
Ward/s:	**ALL**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

The purpose of this report is to commence and introduce the Scrutiny Review: Commercialisation and Income Generation to Scrutiny Panel A. This report sets out the key sources of income generation for Ashfield District Council, a draft Terms of Reference to be approved by the Panel, and next steps to consider to progress the review.

Recommendation(s)

Scrutiny Panel A Members are recommended to:

a. Note the information contained in this report
b. Finalise Terms of Reference for the review
c. Consider further information and evidence required to progress the review

Reasons for Recommendation(s)

Commercialisation and Income Generation was added as a topic for review to the Scrutiny Workplan 2019/20 in June 2019.

Alternative Options Considered

No alternative options have been considered at this stage of the review.

Detailed Information

Scrutiny Review: Commercialisation and Income Generation

Commercialisation and Income Generation was added to the Scrutiny Workplan 2019/20 by the Overview and Scrutiny Committee. In adding the item to the Scrutiny Workplan, Committee Members indicated the following as key areas of interest in the review process:

- Ashfield District Council's main sources of income generation
- Gaining a greater understanding of the Council's commercial property investments
- How Ashfield District Council will help to reduce its budget funding gap, partially through income generation

For the consideration and approval of Scrutiny Panel A Members, draft Terms of Reference for the review are attached to this report as Appendix A.

Core Funding Sources

Council Tax

Council Tax is a tax on domestic property that funds local services.[1]

Without including investment property income, Council Tax equates to 46.5% of the Council's Core Funding. Including investment property income, Council Tax equates to 41.1% of the Council's Core Funding for 2019/20.

Ashfield District Council is responsible for collecting its own share of Council Tax, as well as; Nottinghamshire County Council's precept, Fire and Rescue precept, Police and Crime Commissioner precept, and the precepts for Annesley & Felley and Selston Parish Councils.

Council Tax is measured in what is known as the 'standard band' which is Band D 'equivalent' properties. A 2019/20 Band Council Tax charges for D property in an unparished area breaks down to the following:

Ashfield District Council	£185.46
Nottinghamshire County Council	£1,476.06
Nottinghamshire Fire and Rescue	£79.80
Police and Crime Commissioner	£219.33
Total	**£1,960.65**

The Council offers a 25% Single Persons Discount, and discounts Council Tax payments from Pensioners and Working Age Claimants by up to 100%, through its own local Council Tax Reduction Scheme (CTRS).

Business Rates

Business rates are a tax on property used for business purposes. Business rates are typically charged on properties such as offices, shops, pubs, and warehouses. Properties can also be charged where only part of a building is used for non-domestic purposes.

[1] Ministry of Housing, Communities & Local Government, *Paying the Right Level of Council Tax: A Plain English Guide to Council Tax in England,* May 2019.

Business rates are calculated based on a property's 'rateable value'. The Rateable value is determined by the Valuation Office Agency. (VOA).

Business rates in Ashfield are billed and collected by Ashfield District Council. They are then distributed by the Council:

- 50% to Central Government
- 40% to Ashfield District Council
- 9% to Nottinghamshire County Council
- 1% to Nottinghamshire Fire and Rescue

Including investment property income, Business Rates equates to 35.4% of the Council's Core Funding Sources 2019/20, at around £5.368m.

Revenue Support Grant (RSG)

Historically, Revenue Support Grant has been a main source of local government funding, however, that is no longer the case. Including investment property income, Revenue Support Grant is only 1.3% of the Council's Core Funding for 2019/20 at approximately £194,000. Revenue Support Grant reductions were introduced to help address the Austerity Programme while recognising the growth in business rates. 2019/20 is the final year Ashfield will receive RSG.

New Homes Bonus

New Homes Bonus is a grant paid by central government to local councils who achieve housing growth levels currently above 0.4% each year to reflect and incentivise housing growth in their areas. It is based on the amount of new-build homes, conversions, and long-term empty homes brought back into use. There is also an additional incentive for providing affordable homes.

Of the Council's overall level of resources (income) including investment property income, New Homes Bonus equates to 10.6% of the Council's Core Funding for 2019/20. This amounts to approximately £1.607m.

Investment Properties

Public services are under significant financial pressure after years of austerity and a decline in government grants. In response to this, most local councils are seeking new forms of income. Investing in commercial property has in recent years become a more prominent feature in local government finance, and Ashfield is no exception to this.[2]

Local authorities are advised to consider the long-term sustainability and risk in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

When Ashfield is looking at the potential to acquire an Investment Property there are distinct steps within the investment property acquisition process, with each step having distinct criteria that must be satisfied before the process moves to the next phase. These steps are set out within the Council's Investment Property Acquisition Process 2019 – 2023:

- Identification

[2] Don Peebles CIPFA Head of Policy & Technical, *Investing in Commercial Property and the Need for New Guidance,* November 2018.

- Due diligence
- Business case
- Approval and bid
- Further due diligence
- Surveys
- Completion

In researching a property prior to investment, Officers evaluate the following:

- The tenant's financial history and stability
- The state of the building, the level of maintenance exercised, it's physical location, and potential alternative use
- The lease particulars, the title, and all other legal documentation
- The ability of the investment to deliver a surplus to the Council
- Identification and understanding of risks that Ashfield might face if something were to go wrong

Officers work in collaboration with Legal and Property professionals during this evaluation process.

In all of the Council's investment properties, the Tenant is responsible for all maintenance and repairs to the building. The Tenant must also pay the Council to insure the property. The Tenant cannot leave the property unless the lease has ended, or they choose to at a specific point of the lease, known as a 'break'.

Investment property income currently amounts to 11.6% of Ashfield District Council's Core Funding 2019/20, which is approximately £1.762m (2019/20 Original Budget).

Currently, the Council has invested in the following commercial properties:

- Wilkos (in the District)
- B&M (in the District)
- 3 Co-ops
- DWP Offices
- Sandwich Factory
- Hotel
- NHS Laundry
- Manufacturing & Engineering business (Mining & Construction industries)

So far, approximately £25m has been invested into commercial property, with a budgeted rental income of £1.76m for 2019/20, with an average net yield of 3.5%.

Other Income Generation

Fees & Charges

Using discretionary fees and charges is one of the key income-generating options available to local authorities. The Local Government Act 2003 allows local councils to charge for services they have a power (but not a duty) to provide.[3]

[3] N Burrell Marketing, Research, and Analytics CIPFA, *Fees and Charges – a Significant Income for Councils,* November 2018.

Discretionary fees and charges include services such as:

- Garden waste
- Pest control
- Bulky waste
- Sports pitch income
- Allotments income

The Local Government Association has identified three areas that should be considered to inform decisions around fees and charges:[4]

- Decide why/when to charge

Charges should be in line with strategy and authorities should ask fundamental questions around whether the service should be delivered and if they are themselves best placed to deliver it.

- Identify the costs and risks

Local authorities should understand the true cost of service delivery and whether more efficiencies are needed for the service to be competitive. The risks of charging for services can also be reputational, with some charges being unpopular and leading to backlash. Regarding fees and charges, the LGA's *Enterprising Councils* ultimately sets out that transparency and communication is vital and it must be demonstrated that services offer good value for money.

- Benchmarking

Benchmarking is a useful tool to support decisions around fees and charges, and should be periodically monitored in relation to other local authorities. It is important for local authorities to know how charges compare with other providers to assess competitiveness and to change scope and/or strategy.

Next Steps

To progress the review, Scrutiny Panel A Members could consider:

- Inviting the Council's Corporate Finance Manager and Service Manager – Commercial Development to the next meeting of the Panel in November
- Gaining a clearer understanding of the Fees and Charges Policy
- Exploring innovative ways to maximise income from existing discretionary services through reviewing efficiency and promotion
- Which services the Council is able to charge for and how this compares with other Councils

[4] Local Government Association, *Enterprising Councils: Support Councils' Income Generation Activity,* June 2017.

Implications

Corporate Plan:

The Scrutiny Review: Commercialisation and Income Generation is in line with the following Corporate Plan Priorities:

- Enterprising, Ambitious, and Innovative
- Positive, Proactive, and Successful

Legal:

There are no legal implications resulting directly from this report.

Finance:

There are no financial implications resulting from the recommendations in this report.

Budget Area	Implication
General Fund – Revenue Budget	None.
General Fund – Capital Programme	None.
Housing Revenue Account – Revenue Budget	None.
Housing Revenue Account – Capital Programme	None.

Risk:

Risk	Mitigation
There are no risks identified at this stage of the review.	None.

Human Resources:

There are no Human Resources implications resulting from this report.

Equalities:

There are no equalities implications resulting from this report.

Other Implications:

None.

Reason(s) for Urgency

None.

Reason(s) for Exemption

None.

Background Papers

- Don Peebles CIPFA Head of Policy & Technical, *Investing in Commercial Property and the Need for New Guidance,* November 2018.
- Introduction to Local Government Finance presentation – in house presentation delivered to Members and Officers in July and August 2019.
- Local Government Association, *Enterprising Councils: Support Councils' Income Generation Activity,* June 2017.
- Ministry of Housing, Communities & Local Government, *Paying the Right Level of Council Tax: A Plain English Guide to Council Tax in England,* May 2019.
- N Burrell Marketing, Research, and Analytics CIPFA, *Fees and Charges – a Significant Income for Councils,* November 2018.

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