



Report to: Income Generation Sub-Committee, 27th July 2022

Report of: Corporate Director - Finance and Resources

Subject: INCOME GENERATION AND INCOME MANAGEMENT

1. Recommendation

1.1 That the Sub-Committee recommend to Council revised Responsibilities for Functions and revise its title to Income Management Committee.

2. Background

2.1 Like all other Local Authorities in the UK, Worcester City Council's finances have been in transition from a funding model based primarily on grants from central government to one based on locally-generated income. The withdrawal of central funding has significantly outstripped growth in other income over the last few years. Between 2010/11 and 2014/15 Central Government funding fell from £8.193m to £4.998m. The Revenue Support Grant element of this continued to decline, from £1.856m in 2015/16 to zero by 2019/20.

2.2 More recently, the Government's funding strategy has shifted back towards a grant-based approach. This includes grants of major capital funding (with an element of revenue) which is based on competitive bids from councils and the creation of new one-off revenue streams which are designed to maintain 'core spending power'. Core spending power is the amount of funds that the Government deems each Council needs to provide services. This includes Business Rates baseline income, Council Tax income and New Homes Bonus.

2.3 The new revenue grants are 'Lower Tier Services Grant' which was paid in 2021/22 and 2022/23 (£0.1m) and a general 'Service Grant' which was for 2022/23 only (£0.2m). In terms of capital grants, the Council has been successful in obtaining 3.5m for the Cultural Development Fund, £17.9m for the Future High Street Fund and £19.6m Towns Fund. As a result, £190,000 p.a. of existing salary costs are being capitalised and charged through to these grants. A further £20m is potentially available for Levelling Up, and the Council has been allocated £2.7m over three years for UK Shared Prosperity Fund (SPF) from 2022/23. The latter is a revenue grant, against which some existing salaries can be charged.

2.4 Despite these increased sources of income direct from Government, the Council remains dependent upon income from local sources. The Council has recognised this for a number of years and published a set of proposals for stabilising, maintaining and increasing income in the budget papers for 2017/18:

"The proposed approach to generating additional income will be on a project basis with three key areas of activity:

i. Updating our income budgets to ensure they reflect the current levels of activity and the actual income generated.

ii. Increasing income on our existing income activities through a review of compliance, enforcement and a targeted business case approach to review the potential for income growth. The business case approach will also be applied to smaller scale new income opportunities, associated with or complementary to our existing activities.

iii. In the medium term, the development of two-three 'big ticket' income items that generate more significant levels of income through, for example: better utilisation of our asset base either as a stand alone or through partnership working; the development of sites for housing, business opportunities or leisure activities to encourage economic growth and a healthy and more active population; and the further development of the tourism offer through our heritage assets and partnership approach."

2.5 A Commercial Strategy, approved by Council in February 2018 and revised in 2021, sets out the means by which this will be achieved and aligns income generation activities with the City Plan and the Council's wider strategic objectives. The Income Generation Strategy, also revised in 2021, complements the Commercial Strategy. It identifies proposed sources of income, defines the approach to setting targets for income recovery levels and proposes specific tasks to achieve those targets.

3. Changes in Income-generating Opportunities

3.1 A major component in the strategies was the generation of income through the acquisition of properties. This was allowable under the Prudential Code as long as there was a broader intention to further the Council's aims in respect of local wellbeing. However, in November 2020, HM Treasury introduced a change to the guidance around capital investment to state that local authorities could not access Public Works Loans Board (PWLB) loans in any year where their capital programmes included spending on assets which were primarily for the purposes of income generation. These regulations apply to all capital spending, whether it is within the local authority's borders or outside and whether it is financed through PWLB borrowing or another source.

3.2 In May 2022 the guidance was revised to state that PWLB would be withheld where there was a significant risk that loans could not be repaid. This puts further emphasis on the question of future financing, as any loans taken out in recent years to acquire income-generating assets cannot be re-financed by new PWLB loans once the current loans mature.

3.3 The Council has been consistent in its approach in that assets have only been acquired within the city as this investment brings a local economic benefit. However, the tighter definitions means that such acquisitions can now only take place where there is a specific development requirement, or market failure, that can be demonstrated. This Guidance refers to cases where access to PWLB loans will be acceptable, including the following purposes:

- **Service delivery** - expenditure on assets that form part of the authority's public service delivery.

- **Housing** - which is given separately from 'service delivery' because of the relative concentration of cross-subsidy and other innovative financing arrangements in housing projects
- **Regeneration** – which involves direct investments in assets to generate additional social or economic benefits
- **Preventative action** - which involves direct financial support to local companies or acquiring assets as a way to protect jobs, prevent social or economic decline
- **Treasury management**, which includes the refinancing or extending of existing debt from any source, the externalisation of internal borrowing or borrowing to manage cashflow within year.

3.4 To ensure that it is able to continue to access PWLB capital, therefore, the Council will need to demonstrate that its activities are specifically directed towards the above and are not primarily for the purposes of income generation.

3.5 There may still be an income generating element of capital activities. For example, in July 2021 the Council purchased 54-56 Foregate Street. This purchase includes properties to let which generate annual income of approximately £75,000, of which 50% returns to the Council. However, the purpose of the acquisition was to be able to demolish one of the group of assets to enable the Arches Worcester project to be completed in full. The income is needed to cover the acquisition costs.

3.6 Similarly, the acquisition of 8 Angel Place as part of the Future High Street Fund has the potential to generate long term income once it has been developed as part of the rejuvenation of the Scala Theatre and Corn Exchange and Angel Place. Likewise, The Committee recently re-considered the purchase of Shrub Hill Retail Park to support the wider Shrub Hill development within the Town Improvement Plan objectives.

3.7 To meet the terms of the Guidance a clear distinction must be made between activities which have an element of income recovery as part of the development and those which are designed primarily to generate income. The Terms of Reference of the Income Generation Sub-Committee as provided in the Constitution, state that the Committee is a Sub-Committee of the Policy & Resources Committee and that its delegated functions are as set out in the following table:

Committee	Functions	Delegation of Functions
Income Generation Sub-Committee	To determine all matters falling within the remit of the Committee which are within the Council's Policy Framework and Budget other than those reserved by this Constitution to the Council	Delegation to officers set out at Part 18.
	The following functions: <ul style="list-style-type: none"> • Oversight of asset reviews (i.e. One Town Review) • Development of income generation proposals • Feasibility work for income generation • Approval and oversight of projects under the Small Development Fund • Reviewing Fees and Charges 	Delegation to officers set out at Part 18.

	<ul style="list-style-type: none"> • An externally focussed scrutiny function on matters relevant to the functions of the committee, provided that the areas of scrutiny shall be City Plan priorities and the committee shall not undertake more than two scrutiny reviews per annum • The ability to establish member-led task and finish groups on matters relevant to the functions of the committee 	None
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3.8 Two of the functions defined in the table are no longer current:

- Oversight of asset reviews (i.e. One Town Review)
- Approval and oversight of projects under the Small Development Fund

3.9 Oversight of assets is still part of the function of the Committee, where those assets generate income. Existing commercial assets and investment properties fall within the remit of Policy & Resources through the Asset Management Strategy and Asset Management Plan but income levels are reviewed by the Income Generation Sub-Committee and fees and charges for rent of council property are set by it. There is no extant One Town Review programme, however.

3.10 The Small Development Fund has been closed as all projects have been completed or were not taken forward and the funding subsumed within the City Plan.

3.11 While the development of Income Generation Proposals remains a key component of the Committee's work, it is important to make the distinction between activities funded from revenue and activities funded from capital. HM Treasury guidance on the use of PWLB loans only refers to spending on capital items. Therefore, income generation from service delivery, such as Trade & Garden Waste, Bereavement services and car parking remain within the Committee's Terms of Reference.

3.12 For capital items, the remit of the Committee needs to shift to focus on ensuring that any capital schemes which have an investment element will generate sufficient income, as appropriate, to recover the costs of any revenue implications arising. This would include, for example rental income streams from housing or other property purchases. It is also necessary to apply scrutiny to the acquisition process to ensure that all legal and financial due diligence is undertaken in advance of procurement and to ensure that future income streams are robust. This is part of the Sub-Committee's role which is set out in detail in the Commercial Strategy.

3.13 To emphasise that all capital projects are for the purposes of development rather than for income generation, it is proposed that the remit of the Committee is changed to focus on 'Income Management' as an activity, rather than purely 'Income Generation'. This allows for income generation as an activity to be continued under the direction and oversight of the Committee but as part of a policy intention to ensure that the Council's finances remain robust while day-to-day financing remains dependant on locally-generated sources of income. Changing the name of the Committee to Income Management Sub-Committee will clarify this purpose to external parties.

4. Preferred Option

4.1 That the Sub-Committee adopts a revised set of delegated functions as follows:

Committee	Functions	Delegation of Functions
Income Generation Sub-Committee	To determine all matters falling within the remit of the Committee which are within the Council's Policy Framework and Budget other than those reserved by this Constitution to the Council	Delegation to officers set out at Part 18.
	<p>The following functions:</p> <ul style="list-style-type: none"> • Oversight of asset reviews and commercial property • Development of income generation proposals from revenue activities • Scrutiny of capital proposals to ensure that potential income streams are robustly assessed • Feasibility work for income generation • Reviewing Fees and Charges 	Delegation to officers set out at Part 18.
	<ul style="list-style-type: none"> • An externally focussed scrutiny function on matters relevant to the functions of the committee, provided that the areas of scrutiny shall be City Plan priorities and the committee shall not undertake more than two scrutiny reviews per annum • The ability to establish member-led task and finish groups on matters relevant to the functions of the committee 	None

5. Alternative Options Considered

5.1 To retain the existing title and remit of the Sub-Committee. The title 'Income Generation Sub-Committee' may give the impression to third parties, including HM Treasury and funding bodies, that the purpose of an initiative, particularly where this involves the acquisition of assets, scrutinised and recommended by the Committee is primarily for the purposes of Income Generation. As this will not be the case, the recommendation is to clarify the title and remit accordingly.

6. Implications

6.1 Financial and Budgetary Implications

There are no direct financial implications arising from the report.

6.2 Legal and Governance Implications

Treasury Guidance on the use of PWLB loans Changes to the Prudential Code on Capital Finance restrict the actions that the Council can take to generate income from investment. The Income Generation Strategy has been developed to ensure that the Council complies with the revised guidance. A formal Capital Strategy and Investment Strategy, which are complementary to the Commercial and Income Generation Strategies, were published as part of the budget setting process for 2019/20 which reflected this guidance and are updated annually.

6.3 Risk Implications

Overall risks relating to the Council's finances are reviewed regularly as part of the Corporate Risk Register and reported to the Policy and Resources Committee through the iterations of the MTFP.

Income levels are reported quarterly to the Sub-Committee and any risks to the Council's finances arising from changes in income levels will be considered at the quarterly review meetings.

There is a risk that the Council will be prevented from accessing PWLB finance if it is perceived that its activities are for the purposes of generating income rather than for development. The change in title and remit of the Sub-Committee are designed to mitigate this risk.

6.4 Corporate/Policy Implications

Management of income forms an important element in the work to implement the City Plan, Masterplan, Town Investment Plan and a wide range of strategies introduced to support the delivery of the Council's objectives within the context of its corporate values.

6.5 Equality Implications

None arising directly from this report.

6.6 Human Resources Implications

None arising directly from this report.

6.7 Health and Safety Implications

None arising directly from this report

6.8 Economic, Social and environmental Implications

The Council can use its powers to engage directly in shaping the City and supporting initiatives which contribute to the health and wellbeing of Worcester's residents, businesses and visitors. These powers can be used both to engage in activities which in themselves generate income, such as transfer of funds to third parties to support service delivery, and to use income generated by services to support other activities and capital developments.

Ward(s):

All

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Background Papers:

None