

AGENDA MANAGEMENT SHEET

Name of Committee Environment Overview and Scrutiny Committee

Date of Committee 24 January 2008

Report Title Financial Position of the Smallholdings Estate

Summary The Smallholdings Estate returned a net cost to the County Council of £27,189 in FY2006/7 and it is expected to make a small overall contribution (profit) of around £25,000 in 2006/7. In both years, however, the estate was expected to yield a significantly higher contribution than was achieved. The report outlines actions being taken to ensure that the Smallholdings Estate will achieve significantly higher contributions to the County’s overall budget in future years.

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Would the recommended decision be contrary to the Budget and Policy Framework? No

Background Papers None

CONSULTATION ALREADY UNDERTAKEN:- *Details to be specified*

- Other Committees Smallholdings Panel 3/12/07.
- Local Member(s) Councillor J Appleton
(With brief comments, if appropriate) Councillor K Browne } for information.
Councillor Mrs E Goode }
- Other Elected Members
- Cabinet Member Councillor M Heatley – for information.
(Reports to The Cabinet, to be cleared with appropriate Cabinet Member)



- Chief Executive
- Legal Ian Marriott – agreed.
- Finance
- Other Chief Officers D Clarke – Strategic Director of Resources – comments incorporated.
G Shaw – Resources – comments incorporated.
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION

YES (If 'No' complete Suggested Next Steps)

SUGGESTED NEXT STEPS :

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

**Environment Overview and Scrutiny Committee -
24 January 2008**

Financial position of the Smallholdings Estate

**Report of the Interim Strategic Director for
Environment and Economy**

Recommendation:

That the Committee endorses the proposed actions which will ensure significant annual contributions to the County's overall budget from the Smallholdings estate in future years.

1. Background

- 1.1 In 2006/07 the net operational cost of the estate in 2006/07 was £27,189 and it is expected that in 2007/08 the estate will make an overall contribution (profit) of around £25,000. This does, however, represent a significant reduction in the level of contribution made in earlier years when overall contributions had exceeded £200,000.
- 1.2 At their meeting on 7 September, 2007, the Smallholdings Panel requested that a report should be prepared for their next meeting explaining the current position and what actions were being taken to increase the level of contribution that could be expected from the estate in future years.
- 1.3 The report was duly delivered to the Smallholdings Panel on 3 December, 2007 and it was further requested that a summary be prepared for the Environment Overview and Scrutiny Committee meeting scheduled for 24 January, 2008. The following is that summary.

2. The Key Issues

- 2.1 A detailed review of the financial performance of the estate in recent years has revealed that the fall in overall contribution was attributable to a concurrent increase in expenditure on estate maintenance accompanied by a fall in the value of external rents attributable to the estate.
- 2.2 In addition, a concurrent review of outstanding debt has identified a significant amount (approximately £70,000) that has been outstanding for between two and ten years which requires attention.

3. Estate Maintenance

- 3.1 Expenditure on maintenance on the estate has increased considerably over the last 3 years. In 2004/05, expenditure was £128,190; in 2006/07 expenditure was £327,009.
- 3.2 The increase is as a result of a 10 year maintenance programme introduced in 2006 to address an overall decline in the condition of the estate, and in particular to address urgent health and safety requirements. Priorities for the early years of the programme were the removal of asbestos, remedial electrical safety work and 'safe water' works
- 3.3 In 2004/5, the maintenance backlog on the estate stood at £2,993,000. This rose sharply in 2005/6 to £4,147,000 before falling back to £3,954,000 in 2006/07 then £3,905,000 in 2007/8 as a result of works carried out under the programme
- 3.4 The current policy for funding capital maintenance of the smallholdings estate is to use 15% of capital receipts arising from the disposal of smallholdings properties. This mechanism creates significant peaks and troughs in the available funding and in 2006/07 the revenue budget was been required to absorb a shortfall in funding when insufficient capital has been unavailable to resource the programme.
- 3.5 In order to ensure that the estate does at least return to a positive contribution in the current financial year, the works plan has been reviewed with some work being deferred into future years. As a result, projected maintenance costs have been reduced to £230,000 for the year as against expenditure of £327,009 in the last financial year.
- 3.6 To secure future funding for the programme, a Service Improvement bid is being progressed that will exchange the entitlement to 15% of net receipts on disposals for a base annual maintenance and development budget of £350,000. The principal advantages of setting a defined budget are that it will:-
- (i) Facilitate a planned maintenance and capital improvement programme.
 - (ii) Avoid the dependence on capital disposals for a capital maintenance budget.

4. External Rent

- 4.1 The recent underperformance on rental income can be attributed to the two factors explained in 4.2 and 4.3 below.
- 4.2 The total rental income budget transferred to Environment and Economy amounted to £518,512. £38,000 of that, however, relates to properties which do not form part of the Smallholdings estate. This income has been allocated elsewhere within the directorate but the income budget for smallholdings has yet to be adjusted to reflect this. This will be addressed as part of the 2008/09 budget setting process. The actual income collected in 2006/07 was £482,132

which would have delivered a small surplus against a revised budget of £480,000, all other things being equal.

- 4.3 At 31 March 2006 the debtor provision was £387,000 and at 31 March 2007 it was £264,000. The net impact of this reduction was that the smallholdings estate had to carry a one-off 'book cost' of £123,000.

5. Review of Outstanding Debt

- 5.1 The rental income position in 2007/8 is significantly better because the factors above will not be repeated in the current or subsequent years. A recent review of outstanding debt has identified that most debt is relatively current and should be pursued. However, there is outstanding in excess of £70,000 between two and ten years old and these debts remain outstanding for a variety of reasons.
- 5.2 To address the situation, normal debt recovery procedures will be invoked and all outstanding credits will be actioned before the end of the financial year. In addition, where justifiable, members will be approached to write off debts over two years old judged to be irrecoverable. The cost of this action to Environment and Economy in the current year is expected to be in the region of £70,000.

6. Additional Actions Identified for the Coming Financial Year

- 6.1 With effect from 1 April, rent demands will be processed through the ASH accounts payable system and responsibility for chasing debt will be transferred to the Credit Control section within Environment and Economy Financial Services. This will not only assist in maintaining debt as current as possible but will avoid any misallocation of income and ensure that the aged debt position can be more accurately calculated.
- 6.2 In addition, Environment and Economy is currently piloting on behalf of WCC the introduction of direct debit payments by tenants at the Frank Whittle Centre and EPIC business units. A number of smallholdings tenants have also recently agreed to pay their rents by direct debit. This not only reduces the cost of collection but helps to retain debt as current as possible. Efforts will continue to transfer as many tenants as possible to this method of payment and it is hoped that this will become the default collection option for any new tenancies agreed.

7. Conclusion

- 7.1 The actions now being progressed will ensure that the estate's revenue annual contribution in 2008/09 and future years will be in excess of £200,000. Members are therefore recommended to endorse the proposed plan of action outlined above.

DAVID PYWELL
Interim Strategic Director for Environment and Economy
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15 January 2007