

Report to: **Audit Committee**

Date of Meeting: **6 February 2018**

Report Title: **Update on Financial aspects of the Private Rented Sector
Selective Licensing Scheme**

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Purpose of Report

To update the Audit Committee on the financial aspects of the above scheme following the internal audit report on Selective Licensing undertaken by Pricewaterhouse Coopers LLP to the 21st September 2017 Committee.

Recommendation(s)

1. To ensure that future schemes are subject to a stringent sensitivity analysis which is completed across services prior to the commencement of the scheme.
2. To ensure that information supplied for regular monitoring is robust in order to allow informed decisions to be made.
3. To ensure that all the data produced by the core systems is sufficiently reliable to allow for the accurate assessment of Income levels.

Reasons for Recommendations

To ensure income is correctly reported for statutory reporting purposes and to enable robust and frequent monitoring. Up to date and accurate information will allow informed decision to be made for adaptations to the business plan and ensure suitable financial controls are in place. .

Introduction

1. Cabinet approved the introduction of the selective licensing scheme for seven wards at its meeting on 30 March 2015. The initial scheme came into effect on the 26th of October 2015. Cabinet approved a revision to the fee structure at its meeting on the 9 October 2017.
2. The scheme was set up to be financially neutral over the five year life of the scheme.

Fees were set at:

- Standard fee - £460 per dwelling licensed.

Registered Charities operating and managing property in the designated area to be exempt from the licensing fees, but not the requirement to be licensed.

Phased payments (direct debits) for landlords with 10 or more properties were allowed within the designated area.

- Incentives and reduced fees:

An 'early bird' rate in the first 6 months of the scheme, reducing the cost of a licence to £185.

A lower cost for membership of a recognised professional body or national landlord accreditation scheme reduced the cost of a licence to £330.

If both these criteria apply then the cost of a licence reduced further to £150 for responsible landlords.

3. The application fees were determined based on the cost of administering the scheme and that the scheme would be cost neutral at the end of its fifth year of operation. The income profile made assumptions on the number of properties that would be licenced upon completion of the scheme (7,118) and those that would pay the full fee and the reduced fee.
4. When the scheme was introduced the council received a significant number of applications within the 'early bird' period. In the first 6 months of the scheme 44% of the total number of applications expected across the whole 5 year period of the schemes were received. Based upon the experience of the additional licensing scheme, the original business plan had made an assumption that there would only be around 27% of licence applications made within the 'early bird' application window.
5. A recent external audit by PwC (presented to Audit Committee on the 21st September 2017) estimated that the reduction in income for the scheme as a result

of this unexpected uptake of the 'early bird' discount to be £369k. As a result of the reduced income officers immediately undertook to restructure the Housing Renewal Team with a view to reducing the staffing expenditure to meet the newly estimated income level. This reduction in staffing has caused delays in the processing of licences and the resource available to inspect all licenced properties. This was also highlighted in the PwC audit.

6. Following the schemes second anniversary and with guidance from PwC the original business plan for the selective licensing scheme was reviewed to reflect the actual cost (and income) in the first two years of operation. Using the actual expenditure and income for 2015/16 and 2016/17 and keeping the expenditure as originally profiled at the end of its 5 year statutory period the selective licensing scheme is forecast to operate at a net cost to the Council at the end of its fifth year of operation.
7. Members have resolved to introduce an Additional HMO Licensing Scheme which will commence on the 4 May 2018. Whilst this will reduce the resource available to the selective licensing scheme this will be at a time when the application rate will be starting to decline and reductions in staffing would be required anyway.
8. Even with the proposed staffing reductions (staff are transferred to administer the new HMO licensing scheme from May 2018) the net cost to the council of the selective licensing scheme upon completion would be £350k over its 5 year life. As such in order to achieve a cost neutral position for selective licensing at its meeting of the 9 October 2017 Cabinet resolved to increase the application fee for any remaining selective licences. The new fee, from 1 November 2017, is **£665**. This equates to a 45% increase in the original full application fee.

Financial Background

Method of recording financial income

9. The Council's financial records are based on the Agresso general ledger. The results for the Financial Year are based on treating a calculated amount of the income received in advance, i.e. relating to future years.
10. The way income relating to a specific year is determined is based on the value of draft licences actually issued during the year.
11. This method was chosen over either
 - Taking all selective licensing income received in the year as the income attributable to that year.
 - Attributing the income over the period of the licence e.g. If a licence lasting 5 years was issued at the start of the last month of a financial year, only one months (1/60th) of the income would be recorded in that financial year.

12. The basis of the decision was that income should be recognised when the substantial work involved in process of issuing of a licence had been completed, and therefore associated costs incurred. This was deemed to be when the draft licence had been issued.
13. The selective licensing income can be generated in the general ledger from one of three ways:

i) Sales Invoices

. These are invoices either for

- Standing orders, where if an applicant had a minimum of 10 applications where the applicant opted for payment by standing order (this option has now been removed as it caused additional work and a number of difficulties).
- Invoices for either multiple or single licensing.

ii) Cash book

. The majority of these are generated from the Firmstep system via Pay.net and in general are for a single Firmstep application, but can be for more than one property.

iii) Order purchases

There are 5 of these with a value of £1,215, these are effectively refunds.

There is a need to reconcile the general ledger to the M3 housing system - because:

- Need to confirm integrity of both systems
- Need to know how many licences of what type have been invoiced and or paid for
- Need to be able to marry M3 and the general ledger. There are no dates relating to the issue of licences on the general ledger, this is needed to calculate the Income in advance which is in turn necessary for calculating for the year end income figure.

Findings on Reconciliation

14. A cut-off date of 31st December 2017 was used to undertake reconciliation.
15. At this date the total income since the commencement of the scheme which has been recorded on the general ledger was £1,628,736. This is after the cancellation of an invoice for £4,950 which had been superseded by an invoice for a lower number of properties (but the original invoice had not been reversed).
16. This amount, unless there is any need for refunds and or the cancelation of any further invoice, is the correct overall income received. The data on M3 has been amended throughout the reconciliation process and the current amended M3 figure

is £1,631,164 to 31st December 2017, (M3 reference number WK/20179922). The difference of £2,428 equates to less than 0.15% of the income to 31st December.

Monitoring

17. To enable effective monitoring, information needs to be supplied on a frequent and regular basis to the Housing Renewal Manager and to Finance.
18. A process to regularly compare new licences issued between the M3 and Firmstep systems which are then compared to the general ledger. This is undertaken on a monthly basis and is signed off by the licensing team leader.
19. This enables accurate review and sensitivity scenarios to be run to allow the current business plan to be timely updated to reflect the changes in the performance of the scheme from the anticipated performance.

Timetable of Next Steps

20. Please include a list of key actions and the scheduled dates for these:

The scheme will be reviewed during its fourth year and as such there are no further actions required:

Action	Key milestone	Due date (provisional)	Responsible

Wards Affected

None

Implications

Relevant project tools applied? Yes/No

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No

Local People's Views
Anti-Poverty

No
No

Additional Information

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