CABINET

10 NOVEMBER 2015

PRESENT: Councillor N Blake (Leader); Councillors S Bowles (Deputy Leader), J Blake, A Macpherson, H Mordue and C Paternoster

IN ATTENDANCE: Councillors King, Monger, Rand, Mrs Renshell and Whyte.

APOLOGY: Councillors Sir Beville Stanier Bt

1. QUESTION TIME

This meeting was held at the Winslow Church of England Combined School and prior to the commencement of the formal business, Cabinet offered all those present the opportunity to ask questions or seek clarification on any issue concerning Council services. The following topics were raised:-

- **East-West Rail**

  One of the Winslow Ward Members expressed concern about the recent reports suggesting that the construction programme for East-West Rail could be delayed significantly, thereby having an adverse impact on local aspirations for the economic growth of the town (and the District).

  The Cabinet Member for Growth Strategy indicated that, as the relevant portfolio holder, she had arranged for representations to be submitted to the appropriate Government Minister, and that consideration would be given to further representations being submitted setting out the collective views of Cabinet. The Leader of the Council mentioned that a meeting had been arranged with the Secretary of State for Communities and Local Government to discuss issues affecting the Vale, at which the likely detrimental effects on sustainable growth any delay in the East-West Rail project would have on the District, would be raised.

  Both the local Members of Parliament representing the Vale had been made aware of the Council's concern.

  The Cabinet Member for Growth Strategy was pleased to note that Winslow Town Council had also submitted representations to the Government on this subject.

- **Influence on Government Policy**

  In response to comments by a local resident, the Leader of the Council acknowledged the fact that although of the same political persuasion as the Council majority Group, he too was concerned about some of the policies being promoted by the Government which could have an adverse impact on the sustainable growth of the District. He indicated by way of example, that the Council had from the very outset opposed the construction of HS2 given the detrimental environmental impacts of the scheme, but given the likelihood that the Government would proceed with the project, the Council was concentrating both individually and collectively with Parishes and other interested stakeholders, on ensuring that appropriate mitigation measures would be put in place to protect the special character of the Vale.

- **Aylesbury Visitor Information Centre (VIC)**

  One of the Aylesbury Ward Members felt that whilst the present location of the VIC was not ideal, he was of the opinion that some form of information centre should be retained, given that Aylesbury was the County town and a "gateway" to visitor attractions within the town's hinterland.

  The Cabinet Member for Leisure, Communities and Civic Amenities acknowledged the importance of Aylesbury as a retail and business hub, but the Cabinet report demonstrated clearly that the current arrangement was commercially unviable, given the increasing preference for obtaining visitor information through digital media forms. The statistical information accompanying the report bore this out. The report on the Cabinet agenda concerning Waterside North demonstrated the Council's commitment to regeneration and the development of a high standard of retail/entertainment offer. It was felt that the funding for the VIC would be much better used for initiatives associated with improving the attraction of the town, such as a comprehensive signage scheme, as described in the Cabinet report. The local Member's views would of course be borne in mind when the Cabinet report was discussed.

2. MINUTES

RESOLVED –

That the Minutes of 6 and 15 October, 2015, be approved as correct records.

3. QUAINTON CONSERVATION AREA

Quainton Parish Council had commissioned AVDC to undertake a review of the Quainton Conservation Area. The Conservation Area at Quainton had initially been designated in 1972. A detailed appraisal of Quainton had been undertaken to identify what was significant about the village and a number of alterations to the existing Conservation Area were proposed. A map showing the revised Conservation Area boundary was submitted and copies of the draft appraisal document had been placed in the Members' Lounge at the Gateway. A copy could be supplied to individual Members on request. By way of context, the Cabinet report summarised the legislative position in relation to Conservation Area designation.

The Conservation Area Appraisal document for Quainton:-

- Defined the special interest of the village.
- Identified those features which make Quainton of sufficient interest to warrant designation.
- Laid out some settlement specific management proposals for the preservation and enhancement of the Conservation Area.

The proposed Conservation Area boundary at Quainton had been drawn to include those elements and features which were considered to be of architectural or historic interest, or which positively contributed to the special character or appearance of the area as a whole. The general principles used to define Conservation Area boundaries were laid out in the AVDC Conservation Area SPD (March, 2011). The detailed reasoning for the proposed new boundary and the special interest of Quainton were laid out in the Quainton Conservation Area Appraisal Document.

Most of the proposed changes to the existing Conservation Area boundary related to minor alterations where the existing boundary cut through properties. The most significant changes were summarised in the Cabinet report and related to the inclusion of Townsend, the eastern end of Church Street and the Pumping Station, the southern side of The Strand and 20 The Strand, 37,39,41 and 43 Lower Street, and 14, 15 and 17 Upper Street.

The Cabinet report also summarised the site specific issues raised during the public consultation period. A summary of the consultation process was contained in the report and the report also contained a summary of officers' responses to the comments made during the consultation process. (The Cabinet report could be viewed in its entirety on the Council's web site).

The Cabinet Member for Growth Strategy read out a letter from Quainton Parish Council emphasising the Parish Council's support for the revised Conservation Area and thanking the Council as a whole and the Individual officers who led the review.

RESOLVED –

(1) That the responses to the consultations referred to in Appendix 1 to the Cabinet report be noted.

(2) That the Conservation Area boundary referred to in Appendix 2 to the Cabinet report and the Management Plan, be adopted.

4. VISITOR INFORMATION CENTRE, AYLESBURY

Cabinet considered a report produced as a result of significant changes to the structure of tourism support within AVDC, as well as external changes and the on-going declining footfall at the Visitor Information Centre (VIC), Aylesbury. The report could be viewed in its entirety on the Council's web site.

Work on the Aylesbury Town Centre Improvement Plan was transforming the town. A Marketing Aylesbury Group (MAG), led by AVDC had been established. The MAG was working on a strategic marketing plan for the town aimed at both residents and visitors, which included a web site for the town centre, launched in October, 2015. A signage audit and strategy had been completed. This included wayfinding and interpretation information aimed at visitors to the town. Funding for the implementation of this scheme however had yet to be secured.

The Senior Communications and Marketing Officer and the Communications and Marketing Officer for Leisure, who were responsible for tourism delivery, had been re-located to the Communications and Marketing Team in August, 2014, to take on a Council-wide remit. As a result, the capacity within these roles to promote the VIC had reduced significantly. The annual budget for the VIC was £63,000 and the Cabinet report contained a detailed breakdown. Officer time amounted to £4,542 per annum.

AVDC currently provided the VIC in Aylesbury, based at The King's Head. The Council also used to run the Tourist Information Centre at Buckingham until 2010/2011, when it had been passed to the Town Council. The Information Centre in Wendover had been closed in Autumn 2014 by Wendover Parish Council. Tourism South East managed the VIC service on behalf of AVDC which helped keep costs and overheads relatively low. The contract had recently been re-negotiated, with AVDC benefiting from a 40% profit share of sales, which had resulted in an approximate cash back saving of £2,000 per annum. This represented just over 4% of the management costs.

The aim of the VIC was to enhance visitors' experience, effectively up-selling opportunities and attractions in the area to them, thereby ensuring greater expenditure and investment in the local economy, which supported businesses and jobs. Staff at the Aylesbury VIC supported the promotion of Aylesbury Vale, helped to engage with tourism businesses and supported visitors and residents who did not have access to on-line services or who might struggle to find information through the internet themselves. The VIC supported the Aylesbury Town Centre Improvement Plan by helping to support the ambition of Aylesbury becoming an arts and entertainment town (as its unique selling proposition) by providing an outlet for local artists and craft makers to sell their work.

However the position had now changed significantly. Footfall and enquiries at the VIC had been falling year on year since 2011. The footfall for the first six months of the current financial year was slightly lower than the same period in 2014. The figures were detailed in Appendix 2 to the Cabinet report. This was due to a number of factors, including:-

- The economic downturn.

- The National Trust's disinvestment in The King's Head site and the closure of other shops on the site.

- The changing behaviour trends for sourcing information, i.e. the internet.

A move to a more prominent site had been discussed on a number of occasions, but finding the right location at a low rent had proved difficult.

Analysis of the VIC's users between December, 2014 and September, 2015 had revealed that approximately 30% were visitors and 70% were local residents. Detailed figures were included in Appendix 3 to the Cabinet report. This compared to a national average statistic of 60% of TIC users being visitors and 40% being local residents, as taken from a national audit carried out by "Visit England" in 2013. Historical data on the users of the Aylesbury VIC was not available and it was not therefore possible to determine whether the user profile had changed over time, or to quantify how this balance might change if the centre were to be re-located.

Of the respondents to an Aylesbury VIC survey, 94% had stated that they usually go to a VIC when visiting a new area, despite information being available on-line. 47% of these respondents were aged between 65 and 74, and 32% between 45 and 64 years.

The VIC offered a range of services as listed in Appendix 4 to the Cabinet report but analysis showed that the majority of these services were also offered by other outlets in the town centre. The services not currently duplicated or were partially replicated included :-

- The sale of local event tickets.

- The sale of Aylesbury merchandise.

- Local accommodation bookings.

- Provision of UK holiday information.

Both the sale of local event tickets and the sale of Aylesbury merchandise were partially duplicated by entertainment venues such as the Bucks County Museum and there was scope and potential interest from entertainment venues to offer a greater provision in the future. There had been a decline in accommodation bookings made through the VIC. A total of 41 bed nights had been booked through the VIC in 2014/2015. The provision of UK holiday information did not offer commercial gain and was therefore unlikely to be taken up by other outlets in the town centre in the future.

A number of options were considered:-

- Increasing the investment.
- Business as usual.
- Decreasing the investment.
- Ceasing the investment.

The Cabinet report contained an analysis of the impact on AVDC and the District of each of the options.

Having carefully considered each option Cabinet felt that the VIC should be closed from late March, 2016 and that the budget should be redirected to town centre improvements which would support the visitor economy in a more effective way, such as the implementation of a signage strategy. In summary, Cabinet concluded that:-

- The centre was no longer meeting its primary purpose of serving visitors to the town and area.
- Visitors and residents were gaining information through other mediums, predominantly on-line, resulting in an on-going decrease in footfall. As mentioned at the beginning of this Minute, the new “Visit Aylesbury” web site had just been launched and provided 24/7 information for visitors to the town centre.
- Re-locating to a shared location would require additional short term investment and additional on-going staff resource, but the cost saving projections could not be guaranteed.
- Improvements to information at gateway points (car parks, stations etc.) and signage would meet the needs of the majority of visitors to the town.
- The majority of services offered at the VIC were also provided by other outlets in the town.
- Transferring the VIC to another organisation such as the Town Council, would not solve the issues and concerns listed in the Cabinet report.
- The current contract with Tourism South East ended on 31 March, 2016, with notice being required three months ahead, and this had necessitated consideration of the future of the VIC at this particular juncture.

Accordingly, it was

RESOLVED –

(1) That the Aylesbury Visitor Information Centre (VIC) be closed from late March, 2016, and the current budget be re-invested in more effective visitor economy

support, to be considered as part of the wider budget discussions in relation to 2016/2017.

(2) That the Senior Communications and Marketing Officer, after consultation with the Cabinet Member for Leisure, Communities and Civic Amenities, be authorised to progress all necessary works to implement the closure.

5. WATERSIDE NORTH PHASE 1 - APPOINTMENT OF A DEVELOPMENT PARTNER

In the last ten years, AVDC had been leading the redevelopment of Aylesbury Town Centre. The Council's record was impressive and had resulted in the delivery of major projects in the town centre such as the Waterside Theatre, Waitrose, Travelodge and, most recently, the University Campus Aylesbury Vale UCAV).

AVDC's strategy on town centre redevelopment had three key aims, namely:-

- To improve the attractiveness of the town centre through developments which acted as a catalyst for further investment by the private sector and other public sector partners for the overall benefit of the town and the local economy. An example of this was the theatre which had attracted a range of new restaurants to the town and was underpinning interest in the Waterside North phase 1 development.

- To use its own developments to directly generate new jobs and new wealth in the local economy (Waitrose and Travelodge had collectively delivered 200 new jobs).

- To create a revenue stream for the Council from the rental generated by tenants of the buildings constructed by AVDC.

AVDC was committed to the successful delivery of the Waterside North Masterplan, shown at Appendix 1 to the Cabinet report, as the next development to help meet the above aims. The Masterplan had been worked up in consultation with a number of stakeholders, including Buckinghamshire County Council which owned land adjacent to the current temporary Exchange Street Car Park, (owned by AVDC). The Plan had received widespread public endorsement through a public consultation exercise undertaken in May, 2014.

The context for the development and delivery of the Masterplan was the Aylesbury Town Centre Plan which had been approved in 2013. The Plan set out the vision for the town centre, the guiding principles for future development and a series of actions for improving different parts of the centre. Waterside North was one of the major actions in the Plan.

The Masterplan was capable of phased and independent development of the areas of land in different ownerships. This was an important factor given the volatility of the retail market in particular, and as part of the public consultation on the Masterplan, an outline scheme for bringing forward at this stage the first phase had been presented.

For phase 1 the County Council was initially focussed on rearranging its former offices in Walton Street for residential led mixed use and the creation of a temporary surface car park which would help offset the parking spaces lost by the development on the (AVDC owned) Exchange Street Car Park. The County scheme required the demolition of a number of buildings, including the rear of the old County offices and the former police station building which had been vacant for a long time. The new car park was due to open this month.

The AVDC element of phase 1 had focussed on delivering a mixed use scheme of up to five new café/restaurant units on the ground floor, with apartment accommodation on three levels above. The site was in the heart of the town centre in close proximity to the Odeon Cinema which enabled the development to capitalise on the buoyant and growing café/restaurant market.

A new public square was also included in this phase. This would enable a significant area of new public space to be created in line with the Town Centre Vision. The new public square would provide a fitting setting for the lighting of the torch celebrations associated with the start of the biennial Paralympic Games. The link to the Paralympic legacy was an important factor in securing grant funding from the South East Midlands Enterprise Partnership (SEMLEP).

In preparation for seeking a partner, the Council had undertaken a number of preliminary activities, including:-

- Submitting an outline planning application in July, 2014 (approved in February 2015).

- Securing a funding commitment from SEMLEP for the new public space.

- Establishing occupier demand for the café and restaurant units.

The Council's objective in terms of procurement was to secure a development which met the following criteria:-

- Initiate the Waterside North Masterplan through a high quality first phase in line with the outline planning consent.

- Generate income from the commercial element of the scheme.

- Improve the viability and attractiveness of the town centre so as to attract further private/public investment and enable the development of phases 2 and 3 of the Masterplan to be brought forward.

In September, 2014, consideration had been given to three delivery options for phase 1 and approval had been given for two of the options to be explored further using the most appropriate procurement process. These were:-

- Option 1 – the appointment of a building contractor to construct the scheme to an AVDC specification. In this option, AVDC as the sole developer would bear all the costs and risks on both the residential and commercial space (predominantly cafe/restaurant units), but also the subsequent financial benefit.

- Option 2 – the appointment of a development partner to construct the whole scheme but with the partner financing and owning the residential element and AVDC financing and retaining ownership of the commercial space.

In both options, AVDC would own the public space.

A bidders day had been held in January, 2015, the purpose of which was to present the phase 1 opportunity to a wide range of potential developers, and encourage participation in the procurement process. In February, after consideration of a number of different procurement frameworks, the Council had advertised its intention to seek a development partner using a Housing and Communities Agency (HCA) framework, and expressions of interest had been invited.

No expressions of interest had been received from developers who only wanted to construct the scheme (option 1). All expressions of interest had been for option 2 (development partner), and two potential development partners had subsequently been shortlisted to complete a sifting brief as the next stage of procurement.

In June, 2015, the two potential development partners had been invited to submit the following details as part of an Invitation to Tender (ITT):-

- Scheme design proposals (which would provide the basis for taking the outline planning consent scheme to the next stage of preparing a reserved matters application). The developers had been asked in particular to consider how best to optimise areas of outline consent which were currently shown as internal car parking and some general commercial space fronting Long Lional.

- A detailed financial appraisal prepared as a draft business plan and cash flow. The developers had been asked to consider the premium payments required from the Council to fully fund anticipated development expenses, how these could best be cash flowed, how access to Council finance could assist viability, how profit sharing (overage) should be structured and how any new/additional or savings in costs would be accounted for.

- The proposed legal arrangements which would enable the development to proceed. The submitted and marked up draft Development Agreement and Lease to address the various preconditions to development, commencement and completion of works, recalculation of costs and the usual issues of performance, insurance and dispute resolution.

- Tender acceptance – Confirmation that the tender was deemed to remain open for acceptance or non-acceptance for not less than ninety days after the date of receipt of tenders. The Council might accept a tender at any time within this prescribed period.

In essence, the requirements set out above would form the pre-determined criteria for evaluating the bids. Both tenders had been checked initially for compliance by the Council and a further process of competitive dialogue had been undertaken with each developer to support the evaluation process and the recommendation was that developer A be appointed as the Council's development partner. The evaluation had been carried out by a combined panel of AVDC officers, the Council's general advisors on this scheme, Lambert, Smith Hampton and specialist advisors, including the Council's planning advisor (who had submitted the outline planning application on behalf of the development arm of AVDC), and Strutt and Parker, the letting agents for the food and beverage units.

Members appreciated that at this stage the submission was not complete. If the Council approved developer A as its development partner, there would be an intense period of progressing the scheme to detailed design as well as the need to finesse the draft Development Agreement which formed the detailed contract between AVDC and developer A for the delivery of the scheme.

A summary of how developer A had sought to address the points referred to above was given.

Developer A's bid proposed four café/restaurant units fronting the new public square with the commercial space fronting Long Lional designed to accommodate a further café/restaurant use in due course or alternative use as A1 (shops) or A2 (financial and professional services). The use of this unit would be a matter for the Council to decide and take forward.

The letting agents, Strutt and Parker, had confirmed that the café/restaurant space was marketable as configured and would be well received by operators. Up to three units would be pre-let. All four units would be let on 15 year certain leases.

Developer A proposed that the integral car park was not the best parking solution and should be replaced with a parking permit scheme. The integral parking space would be used to maximise the residential space and provide up to 47 one and two bedroomed apartments. The specific financial implications were submitted as part of the confidential section of the agenda.

With regard to the legal arrangements, whilst there were a number of areas to finesse with developer A regarding the Draft Development Agreement and a number of actions for the Council to take, e.g. completion of the Right to Lights survey, there were not considered to be any insurmountable issues/outstanding points of commercial negotiation.

The financial structure of the scheme was that the development partner would accept the site from the Council and then build, at their own risk, the agreed development of residential and retail. Upon completion of the construction phase, the development partner would sell the residential units on the market and capture the value from doing so. The profit from the sales of the residential units would partially offset the cost of constructing the retail units and the Council would pay the development partner the previously agreed unfunded balance in order to take freehold ownership of the retail units.

The Council would let the commercial space to tenants and the income stream from doing so would represent the Council's return from the investment. In return for an agreed profit element, the development partner would accept both the construction risk and the sales risk on the residential units.

In the event that property prices increased significantly during the development phase such that the development partner made greater profits than envisaged, there would be an overage clause within the agreement to enable the Council to benefit from the unexpected uplift in values. In the event that property prices fell, then the development partner would be committed to the sales values used in its calculation of the unfunded balance and any loss resulting from it would be borne by the development partner.

Within the arrangement, the Council would ultimately pay the unfunded balance, also termed the net estimated residual cost, of the scheme to the development. If the Council could mitigate the construction costs, or increase the sales values in any way during the negotiation process, then it would benefit directly through achieving a lower net residual cost.

As the development partner cash flows the construction phase (ultimately offset by the value or residual sales), the development partner's financing costs would be a significant element of the proposal, which the Council would end up paying as it contributed to the residual net sum.

In recognition of its significantly lower borrowing costs, the Council had indicated to both development partners that it would cash flow up to 75% of the development partner's costs (beyond the unconditional stage) and would request only a very small margin for doing so. By capping its lending to 75% and requesting security over the partially completed asset, as a lender's charge, together with a parent company guarantee, the Council's financial interests would be protected whilst at the same time ensuring that the cost to the Council of the development partner financing the scheme were minimised.

Wrapping around the scheme and completing the area between Walton Street, the County Council's buildings and the existing Odeon complex was an area of public space. Government growth funding of £3.3m had been awarded for this element of the scheme by SEMLEP. The grant was split between AVDC and the County Council and £3m was to be used for the public space that fell within AVDC's land ownership and this would cover the entire costs including design fees. The remaining £300k would be used towards the public space on land within the County Council's ownership. A public space architect had been appointed to design the whole scheme but would cost the two areas separately.

The development partner would be commissioned to undertake these works in order to reduce disruption to the town. The commissioning formed part of the procurement process and the works would be conducted on an open book basis with capped development partner fees so as to ensure both value and transparency.

The development on Exchange Street Car Park would see the permanent loss of approximately 90 spaces and potentially another 40 during the construction phase. The car park was popular with visitors to the town and generated income for the Council. The loss of spaces would therefore have an impact on income, but the exact implications were hard to predict.

Opening next door this month, was the County Council's temporary car park behind the old County offices. In capacity terms, this would replace the majority of the permanent spaces lost. With or without the proposed development of this scheme, the opening of the County's car park would have had an impact on car parking revenues from this site. It was therefore important not to confuse or attribute the revenue loss from one event to the other.

The development in itself would create additional demand for car parking within the town centre and it was reasonable to assume that the remainder of Exchange Street and the County Council's car park would be premium in meeting both existing and new demand. This should increase the already high levels of usage and this would in part offset the revenue from the reduction of spaces.

The Council also had lower utilised car parks within the town which could be used to accommodate the higher demand. Signing and pricing would be important factors in making sure that visitors were able to park in locations that satisfied their needs and these would be considered as part of the wider review of car parking provision in response to changes in both demand and provision. Ultimately whilst there would be some impact on car parking provision within the town, through better utilisation of existing car parks and through the additional provision represented by the County Council's new car park, there was enough parking provision to accommodate it.

The effect on revenue was, consequently hard to predict as higher demand might offset lower provision in this favoured location. To demonstrate that the business case was robust in this regard,an element of lost revenue to the Council had been factored in at one third of the existing revenue assumed to be generated by these spaces, less the savings in direct operational costs. The lost income represented by temporary loss of provision during the construction phase was assumed to form part of the capital sum and fees.

The Council's advisors in respect of the commercial element of the scheme, Strutt and Parker, had reviewed the proposals put forward by the proposed development partner and had considered its commercial value in terms of location, market place and layout. Based upon this they had provided an assessment of the rental income the commercial space was reasonably likely to attract.

The numbers provided by the advisors had been used in the financial model, together with the standard terms that would usually be expected by the tenants. The one important point to note was that normal conditions expected within the market place included a rent free period of one year in order to develop the business and a capital incentive, equal to a further year, in order to defray fit out expenses.

So, in line with all similar commercial developments, the Council should not expect to receive any rental in the first two years of operation. Longer term, these incentives would be recouped through the proportionally higher rental numbers. Lease rental periods would normally be for 25 years, with a potential break clause after 15 years had elapsed, thereby providing a reasonable degree of income security to the investor. Industry standard was for rent reviews (upwards only) every 5 years.

Because of the wider funding pressures being experienced by all local authorities, any period of financial outlay not matched by equivalent income made funding a scheme difficult. The returns from the scheme were sufficient to support a prudential borrowing case to be made, but the short term borrowing repayments would create an unfunded pressure on the revenue budget which would be undesirable in the current environment.

For this reason, together with the fact that the scheme was as much about provision of leisure and social infrastructure associated with the expansion of Aylesbury, it was proposed that the capital cost of the scheme be funded from the 2016/17 expected allocation of New Homes Bonus. Should, for any reason, the funding through New Homes Bonus not be available, then it was proposed that the scheme be funded from the available balance of the Capital Programme (referred to elsewhere in these Minutes).

Funding via this route would ensure that there was no cost (other than opportunity costs) associated with the financing of the scheme and the entire net revenue generated by the scheme would be available to support the provision of wider Council services.

A risk and mitigation statement was attached to the Cabinet report highlighting what were considered to be the major risks facing the progression of this project. A number of risks, around viability, acceptability of the final design and consent, would be mitigated through a "go, don't go" decision point early to middle of next year. If either the development partner or the Council could not reasonably be satisfied that the commercial terms or design requirements of the Council (as Planning Authority) were within the parameters laid out above, then the decision would mutually be taken not to proceed with construction.

With the private sector there was a general nervousness that the public sector sometimes took decisions for political rather than commercial reasons and, therefore they were reluctant to work at their own financial risk with the public sector where there was a significant risk of loss to them that could be caused through the Council's action. For this reason, the Council had been advised that it was normal in such development schemes for the promoting party (the Council in this instance) to carry the financial risk to the development partner should the Council decide to withdraw prior to the point where the scheme goes unconditional and up to a capped maximum sum. This requirement had been explored with potential development partners and it had become apparent that such a requirement would be necessary to ensure that any potential partners would even bid for the scheme.

The maximum contribution required by the development partner was £330,000 and reflected the fact that there was considerable investment on their part leading up to the "go, don't go" decision point around design and planning consent. As the Council had the option to exit for reasons over which the development partner had no direct control, they required this to be reflected in the potential share of abortive costs.

In the lead up to the final decision point there were various sub elements and issues that would need to be resolved satisfactorily and costs incurred would be staged and minimised in order to ensure that any financial risks under this obligation were minimised.

Although the development partner required risks outside their control to be shared they were also happy to share in the upside gain. To this end they had offered two potential opportunities to share in betterment on the scheme. In the first instance, at the "go, don't go" stage, if costs or sales values had improved they were happy for these to be reflected and fixed into a (lower only) agreed revised deficit payment from the Council upon completion.

The second opportunity was in terms of actual residential sales values, where if values increased above a fixed level, being that which was required to make the scheme viable for the development partner, then they would share in the additional value with the Council in the form of an overage payment.

Lastly, the Cabinet report incorporated a provisional timeline for the scheme assuming that Council approved the appointment of developer A.

RESOLVED –

(1) That council be recommended to appoint developer A as the Council's development partner.

(2) That Council be recommended to include £4.2m in the Capital Programme in order to acquire the commercial element of the development.

(3) That Council be recommended to approve inclusion of £3.3m in the Capital Programme for the public realm element on the basis that this money was expected to be reimbursed by the South East Midlands Local Enterprise Partnership.

6. CAPITAL PROGRAMME

Cabinet reviewed the Capital Programme for the current year and for the plan period up to 2019/20. A similar report would be considered by the Finance and Services Scrutiny Committee on 16 November, 2015, prior to submission of the Programme to full Council on 2 December.

The Council maintained an integrated strategic Capital Programme, divided into three sections:-

- Major Projects - These being the largest and highest profile.
- Housing Schemes - These being the housing enabling and housing grant based schemes.
- Other Projects - Being all other schemes included within the Capital Programme.

The programme was reviewed annually having regard to forecast receipts and capital priorities.

The economy was continuing to grow despite the wider European problems. This in turn had had a positive impact on the construction industry, particularly housing, resulting in increased demand for land and increases in land values.

The housing market also continued to grow, with house prices showing an 8.6% increase compared to last year. This had had an impact on the appetite for home ownership from former Council tenants. Consequently, income from the “Right to Buy”, which was one of the Council’s major sources of capital income, was likely to be less than that received over the last couple of years. Since April, 2012, when the Government had increased the available discount for tenants from £38,000 to £75,000, the number of house sale completions had risen over the subsequent two years to 47 in 2013/24 and 40 in 2014/15. However, the Vale of Aylesbury Housing Trust (VAHT) was anticipating sales completions to be only 20 in the current year, which would result in a decrease in the level of capital receipts AVDC could expect to receive.

These factors had a bearing on the available resources for the Capital Programme. Any decrease in anticipated resources effectively reduced the level of resources available to fund new schemes and so increase the possibility of borrowing, and this needed to be factored into the Programme. The changes in anticipated resources which needed to be factored into the Programme were as follows:-

- Share of house sales receipts from VAHT - These flowed from the stock transfer agreement and ran for 25 years from the transfer date. The number of sales had been forecast to be 20 for 2015/16, with the same number being forecast for 2016/17.

- Asset sales - These were sums released from the disposal of Council owned assets, mainly land and property. The majority of these disposals were for housing development schemes. Existing assumptions around timing and values had been reviewed on the basis of the current state of the housing market.

- Capital contribution - This related to the contribution from the New Homes Bonus reserve allocated to capital schemes by the Council.

- Revenue contributions - These included New Homes Bonus and the use of repairs reserves.

- Government Grant - Specifically in support of the Waterside North scheme.

The following table set out the available resources at the beginning of 2015/16 and projected resources at the end of the Capital Programme period of March 2020 before any expenditure had been taken into account:-

	Current Resources **April 2015** **£’000s**	**Resources Projection** **March 2020** **£’000s**
Share of Right to Buy Receipts	2,793	7,793

VAT Share (Ends 2016)	428	1,428
Asset Sales	6,815	9,523
Capital Contributions	839	839
Lottery and Section 106	0	3,900
Revenue Contributions	0	6,547
Prudential Borrowing (UCAV)	0	6,419
Total	**10,875**	**36,049**

The stage had been reached where the generation of sizeable capital receipts in the future would no longer be possible as the Council's asset base had been reduced to small land holdings and operational buildings i.e. offices, leisure facilities, public conveniences etc. This meant that future commitment to projects could only be given on the understanding that the funding would have to be met from external sources – either borrowing or third party contributions. The Capital Programme was submitted and the following commentary was given to Cabinet:-

Major Projects

The following had been listed under the Major Projects section:-

UCAV
Waterside Development
Swan Pool

The Capital Programme included the latest forecast costs for the individual schemes. There was some residual public realm work required around the Waterside properties now that the Canal Society had vacated the site. The Waterside Academy (UCAV) project was in the final stages of completion and the Capital Programme included the agreed scheme costs.

Swan Pool Buckingham

The Swan Pool and Leisure Centre improvement project had commenced in February, 2015. The £2.7m project had been awarded a grant of £500,000 from Sport England and would be funded from S106 contributions from housing developments within the Buckingham area - £700,000, accumulated repairs and renewals provisions - £500,000, with the balance being drawn from New Homes Bonus in recognition of the housing growth being delivered in and around Buckingham.

Improvements to the centre included refurbishing and enlarging the changing village, creating a new and separate dry side changing area and installing a climbing wall. The gymnasium would also be modernised to include a larger spectator area. To date, the new crèche, dry change and extended health and fitness suite had been completed and opened. Progress remained good and the project was on budget and on target for completion in January, 2016. The project had been designed to be as environmentally friendly as possible, making use of sustainable technologies, and the work had been phased with the aim of keeping as many facilities as possible open throughout the construction period.

Waterside North and Public Realm North of Exchange Street

Members were reminded of the consideration given to the previous item, which set out the business case for his scheme. The sums included within the Capital Programme represented the estimated cost of the two schemes and the assumption that they would be met from existing resources. The revenue implications would have to be factored into the budget planning process.

Pembroke Road Depot

The Council had previously recognised the need to purchase Pembroke Road Depot (units 17 and 18), unit 19 (the existing Sita/John O'Connor building) and units 12 – 16 south of the site to allow for the expansion of the depot. This was necessary due to the operational limitations at the depot in relation to vehicle parking and waste storage capacity. Business opportunities existed around the development of new workshop facilities for the Council's vehicles and MOTs. The specific factors necessitating acquisition were set out in the Cabinet report.

Acquisition from Aylesbury Vale Estates (AVE) would enable all the issues outlined in the report to be addressed.

A residual development budget remained from the depot extension project of three years ago. The delivery of that scheme had been delayed because of some land ownership issues. The remaining capital budget would be used to complete the planned works. AVE had indicated they were willing to sell the land at Pembroke Road for the book valuation, but as the land required extended to three quarters of the available land at this location, AVE would wish to dispose of the entire site as any residual land in their ownership would have little operational value to them.

The entire site had been valued at £2.2m and this had been assessed independently as a fair price. Because of the nature of the ownership of AVE, half of the payment would ultimately be returned to the Council through higher returns from AVE. The additional land beyond the Council's minimum requirements to deal with the operational issues, presented an income generating opportunity from an enhanced workshop and authorised motor vehicle testing facility. It would secure the Council's place in the market as the Vehicle and Driver Standards Agency was currently in the process of closing the existing testing facilities and was pushing work out to the private sector. Opportunities for maximising the commercial value delivered by the site would be presented for consideration separately.

Housing Schemes

The main element of funding within this category related to the Council's housing enabling function. Within this function, the Strategic Housing Team negotiated with private developers and registered providers to help deliver a policy compliant level of affordable housing. It was often essential to contribute a level of grant to secure the best mix of units.

The Council continued to be successful in its delivery of affordable housing projects over the period of the recession. Now that there were signs of improvement in the housing market, the Housing Team would endeavour to deliver as many houses as possible within their resources. However due to the challenges received from private developers on the grounds of financial viability and recent Government announcements, including the introduction of starter homes being considered as affordable housing, it would be even more difficult to deliver a level of grant to help ensure the delivery of these units. Other than carrying forward sums committed to affordable housing but unspent from previous years, no change was proposed to the funding provision for these projects.

Other Projects

Provision for these schemes remained unchanged, other than carrying forward unspent sums on schemes which had been delayed for reasons outside the Council's control. The Programme included a provision to replace some of the refuse and recycling vehicles. A number would be replaced in March, with the balance being rolled forward into next year.

New Schemes

It had been agreed in December last year to make a Compulsory Purchase Order (CPO) in respect of a long term empty property in Aylesbury which was in a poor state of repair. Unless resolved through other means, once the CPO had been implemented, the property would be disposed of on the open market with conditions that the new owner would renovate the property. A sum had been included within the Programme to facilitate this course of action.

It had also been agreed that the Elmhurst Community Centre should be disposed of with the proceeds being earmarked for an improvement programme for the other centres. This disposal had yet to be completed but the anticipated receipt had been included within the Capital Programme.

In summary, the Capital Programme included two new significant schemes – the first phase of the Waterside North development and the proposed acquisition of Pembroke Road. Waterside North and the associated public realm works were proposed to be undertaken using identified new resources from New Homes Bonus and Government grant. This left an unallocated balance available for other purposes and provided a buffer in the event that not all of the projected capital resources materialised. This was particularly relevant given the uncertainty surrounding the continuance of New Homes Bonus. Although this source of funding would be ongoing in the short term it was expected that it would not be available by 2020.

Residual support should be sufficient to fund the obligations proposed for the Waterside North scheme, but in the event that this should not be the case, then some of the uncommitted balance could be directed to this scheme to ensure its delivery.

RESOLVED –

That the updated Capital Programme for 2016/17 onwards be recommended for approval by Council, (which would be advised directly of any comments from the Finance and Services Scrutiny Committee).

7. BUDGET PLANNING 2016/17

Cabinet received a report setting out the high level issues facing the Council in developing budget proposals for 2016/2017 and updating the Medium Term Financial Plan (MTFP).

The current MTFP for 2016/2017 had been agreed by Council in February, 2015. The predicted need to identify £700,000 of savings in order to balance the budget for 2016/2017 had been based upon the information available at that time and a set of assumptions around key variables within the budget. It had been appreciated that these key assumptions would need to be revisited and reviewed as part of the budget planning process for 2016/2017 and for the subsequent four years, which made up the MTFP period.

The previous 5 years had been categorised by the Government's balancing of the private sector funding equation, and for local government this had meant dealing with large reductions in funding support, whilst managing the expectations of the Vale's residents. In terms of the Government's financial agenda, most of this period had been framed within two significant spending review periods.

Post the General Election in May, the country was now waiting on the Government to produce a new spending review in order to give direction and shape the funding landscape over the next 5 year Parliamentary term. Even without this however, there was clarity over the fact that the Government was still committed to its objective of balancing the budget within this 5 year planning period. It was anticipated that the focus would remain on efficiency, income generation and further reductions in local government support.

It was expected that the results of the Chancellor's funding review would be announced on 25 November, 2015. This would provide the headline numbers for each Government department. It was expected that the grant figures for local government would not be known until late December. Given that this was a pivotal point for the Government in determining its policy for the next 5 years, much would depend on the outcome. Not only would the spending review be relevant for the grant allocation, but it would also determine the Government's policy intention towards other areas such as housing, welfare and council tax, which in turn might well have significant implications for the way in which the Council organised itself and the way in which it allocated resources.

Government Grant

The Government had been dealing with the inherited public sector deficit since the banking sector collapse in 2009/10. The Government's objective had been to return the economy from an annual deficit to a surplus. The scale of this challenge was vast and the impact on public spending, far reaching. Since 2010/2011 the Council had seen its Government grant reduced from an equivalent £13m to £6m in 2015/2016. Given that in 2010/2011 Government grant had funded 58% of services residents enjoyed, the impact of this reduction had been far reaching for the Council.

The Council had reacted through increased efficiency, higher charges in some areas, new money making initiatives and through the reduction or ending of some services. However against this back drop, the majority of services continued to be delivered and in many cases the quality of those services had improved. From 1 April, 2013, Government Grant was now made up of two elements – Revenue Support Grant and Retained Business Rates. The system of business rates retention allowed councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus each council would be incentivised to promote economic expansion. A chart illustrating how Government grant had reduced since 2010 and how it impacted on the MTFP was submitted. Core to the Council's financial planning was the underlying assumption that all Government grant support, including that represented by Retained Business Rates, would end by 2020/21. Whilst it was believed that the Government might not actually remove the retained element of business rates, it had been assumed that they would capture value associated with it through other means, i.e. by removing another funding stream, by introducing a new charge or passing on a new unfunded responsibility. The Chancellor's statement to the Conservative Party conference in October, 2015, that all business rates would be retained by councils in 2020, did not directly contradict the planning assumption view referred to above.

Chancellor's Statement and its Potential Implications

In a major announcement made to the Conservative Party conference on 5 October the Chancellor had set out plans to hand over, by 2020, 100% of business rates revenues –

currently worth £26bn a year, to local government. Entitled "devolution revolution", the stated aim of this reform was to ensure all income from local taxes was spent on local services, so helping to fix the current broken system of financing local government.

As part of the Chancellor's proposals, the Uniform Business Rate, established in 1990 and set by Central Government, would be abolished. Instead, local authorities would have the power to cut business rates to attract economic activity in their areas. As a further incentive, local areas would be allowed to keep the full benefit from growing their business rates yield as a reward for promoting growth. The announcement was therefore effectively about 100% retention of growth in business rates by local authorities. However, in return for full business rates retention Revenue Support Grant would be phased out and local government would also be asked to take on new, as yet un-named, responsibilities but which were thought to be centred around economic growth, so as to ensure that the reforms were fiscally neutral.

Whilst on the face of it this was a positive announcement for local government, there was considerable detail which would need to be explained before the true nature of the announcement and its implications for individual councils could be understood. At the centre of this were the nature of the new obligations, the allocation of growth between tiers, the baseline allocation of resources across the country (currently Aylesbury Vale collected £46m but only kept £3.5m) and what safety nets might exist for areas overly dependent on a single employer.

Hand in hand with this announcement was the statement that core grants (Revenue Support Grant) would effectively end at the same time. Core grants were paid from the 50% of all business rates which the Council currently retained and so its ending was a necessary part of this announcement. In practice, the MTFP for AVDC assumed that this would end anyway in 2017/2018, as the Council effectively dropped out of the grant system at that point.

However, other funding streams, such as New Homes Bonus were funded by the Government from the 50% of all business rates that it received. Therefore, without Core funding, in all probability this announcement would also see the ending of New Homes Bonus and other funding streams.

Whilst 2020 was towards the end of this planning period and therefore might seem a relatively distant consideration, it was possible that the Treasury might work towards convergence over the intervening years and therefore the impacts of the announcement might be felt much sooner. It was too early at this stage speculate what the impacts might be, but they would be explored through the budget planning process.

Determination of Grant Numbers for Provisional Budget Planning

The Government had pre-announced indicative settlement figures for 2015/2016 in 2014/2015, so the Council was able to plan with a degree of certainty for the reductions in funding. This year, because of the significant implications that might arise from the spending review, no pre- announcement was likely.

Given the potential scale of the financial challenge facing the Government and its clear intent to consider radical solutions, which might include the fundamental redesign of the funding system and/or potentially even the structure of local government as part of its devolution agenda, the scale of any changes to the Core grant funding stream were hard to predict. Over the past 3 or 4 years the reduction for this Council had fairly consistently averaged £1.2m to £1.3m per annum. The reduction for 2015/2016 had been £1,176,380. Whilst there remained enormous future uncertainty, this trend had proved to be at least fairly reliable over previous years. Therefore in the absence of any clearer information it was proposed to base medium term financial planning on the continuation of this trend with grants being completely removed from the Council by 2020.

It was emphasised that there was considerable potential for the actual position to be worse or better than this assumption and to combat the risks associated with either outcome it was proposed that an element of scenario planning should be built into the draft budget proposals. The actual grant numbers were not expected to be announced until December (potentially the 23 or 24, if the announcement followed the pattern of previous years), which would again impact upon the Council's ability to consider its budget planning proposals in good time.

Business Rates Growth Retention

As had already been highlighted in this Minute, one of the key features of the new system of Government funding was the introduction of local business rates retention. More specifically, retention of a proportion of growth or losses. As was often misunderstood, it did not mean the retention of all business rates collected locally. Growth or losses sat outside the grants system, although they did have a relationship to it.

In practice, after levies and tariffs (needs based assessments) were applied, this Council would keep only 20% of any real growth after inflation, and only 6% of the total business rates collected. This was somewhat different to the 50% normally messaged and considerably short of the 100% often implied. Conversely the Council would still have to meet 40% of the cost of business rate losses or reductions. This included 40% of the entire cost of backdated appeals (refunds) back to 2005 or 2010, where a valuation was appealed and won.

Officers had been keeping a careful eye on actual business rates collection performance during the first two and a half years of the scheme's operation so as to better understand the impact on the Council's finances. Based upon this monitoring, the conclusion reached was that business rates retention produced volatile outcomes, but on balance did appear to be producing real growth within the Vale. However, there were some significant caveats to this statement, not least of all, the outstanding appeals associated with the highest value retail properties (the large supermarkets) as these had the potential to significantly reduce the value of rates paid. It was primarily this uncertainty which led to the Council being cautious in either forecasting or utilising any predicted gains from the business rates retention system.

An appeals reserve had been created against this inherent volatility and an appeals provision existed within the business rates collection account. This could be drawn upon to smooth out the volatility. The actual outturn for 2014/2015 was illustrated by the table below:-

Distributed as Follows:		Budget 2014/15	Actual 2014/15	Change + / -
		£M	£M	£M
Business Rates Collected		48.929	49.064	
Set aside for Appeals				
Balance Available for Distribution		48.929	49.064	
Government	(50%)	24.465	24.532	0.067
Bucks CC	(9%)	4.404	4.416	0.012
Bucks F&R	(1%)	.489	0.491	0.002
AVDC	(40%)	19.572	19.625	0.053

Minus Tariff	- 15.722	- 15.722	-
Retained Business Rates	**3.850**	**3.903**	**0.053**
Compensation for Govt. Changes	0.650	0.901	0.251
Disproportionate Growth Levy	- 0.476	- 0.629	0.153
Retained Business Rates (Loss)	**4.024**	**4.175**	**0.151**

Importantly, the Council was paid business rates based upon the budgeted number and so the small gain would be available for use as part of budget planning. Looking forward, whilst 95% of all outstanding appeals had been resolved, the largest and highest risk appeals were still within the 5% of cases that had not been determined. These supermarkets' appeals remained the issue of most concern as this had the greatest potential impact on the value of retained business rates. Beyond their resolution, confidence in the Vale producing business rates growth was high and the Council was therefore likely to be able to draw gain from the system.

Business Rates Pooling

The Government had included within the legislation the option for councils to pool business rate income in order to reduce the amount of payments (levies) to the national pool in the event of excess business rate growth. Aylesbury Vale, together with partner authorities, had submitted an expression of interest in pooling in each of the previous three years, only to subsequently withdraw the application due to shared concerns over the potential downside risks linked to the outstanding appeals.

It was reported that again, the respective finance officers of the councils within Bucks had been working on the options for submitting a potential pooling application. Whilst it appeared that there was potential gain to be derived from such an application, as yet, the Government had not published a pooling prospectus for 2016/2017. This delay was looking increasingly unusual. When taken in the context of the Party Conference announcement by the Chancellor, it was looking like pooling might be subsumed within the future plans for the reform of the business rate distribution process. Given the timeframes and the fall of Cabinet meeting dates, officers from across Bucks would continue to work on a submission in the event that a short window of opportunity presented itself.

Council Tax Freeze Grant

Each of the previous five years had been marked by the offer from the Government of a council tax freeze grant for those councils that did not implement a tax increase in the individual years. The extent and value of the freeze grant on offer had varied year on year but ultimately any payment offered had been added to Core Grant and had therefore been eroded in proportion to the reductions in that Grant. The Council's MTFP already assumed the ending of Core Grant for this Authority by 2017/2018, and with its ending, the extinguishment of any benefit derived from accepting the freeze grant in any previous year.

The statement by the Chancellor that all Core Grant would end by 2020 confirmed this assumption and would ensure the ending for all councils of any benefit derived from accepting the freeze grant over the past five years. For those that chose not to freeze council tax, a cap of 2% maximum increase had applied, above which a referendum had to be undertaken to obtain agreement for any higher increase. In all five years only one referendum had been held (by a police authority) and this had been heavily defeated.

With a change in Secretary of State and with a change in the make up of the Government post election, it was not known what the Government's attitude towards council tax would be over the next Parliamentary term. Intrinsically, the Government was a party of low taxation and it seemed unlikely that there would be any rolling away of the control the Government had sought to exercise over this area. By way of a pointer, the Chancellor's announcement on control over business rates also included a cap on the ability to increase their level (although, this did include complete freedom to reduce them by any amount), and even this freedom was restricted to those demonstrating the strongest local governance models.

Whilst only speculation, it seemed likely that the Government would continue to exercise control over council tax increases in this Parliamentary term in much the same way as it had over the previous one. The only exceptions might be for those that had been granted greater devolved control by the Government.

Because of the absence of any lasting benefit in accepting freeze grant and the massive financial challenges presented by the reductions in grant, the council tax strategy adopted had broadly been to increase council tax at least in line with inflation, up to the referendum threshold. The strategy had been finessed in each year to take account of "point in time" issues.

Whilst the applicability of this strategy was reviewed annually, taking into account revised assumptions around grant levels, retained business rates, the level of savings/new income generated and the anticipated impact of any reduction in service provision caused by any predicted unfunded budget gap, it was still assumed to generally hold true across the MTFP period.

Aylesbury Vale District Council Tax Base Changes

The tax base was a measure of the number of households which were liable to pay council tax in the area in a given year. The tax base also took into account the banding (size) of the property and the entitlement to discounts of the occupiers.

With the growth in the Vale over recent years, the tax base had increased significantly above its historic growth trends, resulting in more council tax being payable. Whilst useful, in terms of delivering services, the reality was that the growth which had resulted in the tax base growth often contributed to more cost by way of demands for infrastructure and services, than the increased council tax income new residents would pay. It was estimated that the combination of these factors would result in council tax base growth in excess of 2% in 2016/2017 (3% in 2015/2016).

New Homes Bonus

The gap in funding for infrastructure and services caused by growth had in part been met by the Government though the introduction of New Homes Bonus (NHB). This had proved to be a valuable resource for the Council in recent years in terms of addressing pressures faced, but also in terms of sharing the benefit with the communities impacted by growth. The Government funded NHB by top slicing the amount available for Core Formula Grant to councils. All councils were therefore losing a proportion of their grant to pay for the introduction of the NHB scheme.

The NHB policy agreed by the Council allowed for a proportion of the Bonus received to be used in the revenue budget to compensate for the loss of grant that NHB represented, plus the unfunded costs of providing a standard level of service to the new homes built in the Vale.

Crucially, the Council's revenue budget was not dependent on NHB (or new house building) and the vast majority of it was set aside for infrastructure projects sponsored by both the District and Parishes. However, this statement was caveated by the fact that if NHB ended, the resources tied up with the scheme would be returned to local government in the proportion with which they were contributed. The Council had always been sceptical as to the longevity of the NHB scheme, partly because there was considerable uncertainty over whether it achieved its policy objective, but also because of the considerable strain it placed on the local government funding system. For this reason, it had consistently chosen to limit its revenue exposure to this funding stream.

Given that NHB was funded by the Government through the top slicing of Core Grant, the announcement by the Chancellor of the ending of Core Grant by 2020 (replaced by full retention of business rates) meant the ending of NHB within that timeframe seemed much more probable.

The MTFP for 2016/2017 which had been agreed in February, 2015, had assumed that a sixth adjustment would be made to the revenue budget based on the NHB associated with growth actually delivered in 2015/2016. Whilst it was considered unlikely that NHB would be abolished completely in 2016/2017 (because of the revenue budget exposure many councils had to it), the continuation of the scheme in its present form was also considered to be unlikely and this had been flagged up as a significant risk in the development of the MTFP period.

Inflation, Pay and other Economic Pressures

The MTFP had made assumptions around these elements based upon a gradual improvement in the economic outlook. In practice, whilst the economy had now started to show some tentative signs of recovery, the rate of inflation remained low and seemed to remain relatively constant for now.

Beyond this current low point, the predictions were that any changes were likely to be upwards, but only gradually. As a result, the amounts assumed for pay and inflation in the MTFP were, if anything, slightly overstated but would be reviewed and refined through the budget development process.

The introduction of the living wage by the Chancellor was expected to impact the Council over the MTFP period. Not specifically in relation to its own workforce but through higher contract costs. Already the Council had been made aware by some contractors that the living wage would mean higher operating costs for them and that ultimately these would be passed on through contract re-tendering exercises.

The Government's pension reforms would also impact in 2016/2017 as the National Insurance reduction for contracted out pension arrangements would end. This would mean higher Employer National Insurance Contributions and higher costs to employees too. However, the date for the ending of the arrangement and the higher costs associated with the change had been known for a number of years and the MTFP had already factored this change in.

31 March, 2016 would see the next tri-annual pension fund revaluation. Whilst any changes in pension costs associated with this would not impact the budget in 2016/2017, it might have implications for 2017/2018. At this stage it would be premature to say what the implications might be, but Members would be kept informed as the situation developed.

Financial Impacts of Major Capital Investment Decisions

The revenue financing implications arising from the decision to construct the Aylesbury Vale University Campus had been factored into the MTFP. In terms of new impacts, the consequences of any funding decisions would be built into revenue planning as part of the budget planning process.

When the Council has had spare cash balances available, these had been used in lieu of borrowing. This had reduced the need to take out long term borrowing. Utilising spare cash in this way was especially advantageous during periods of low interest rates. It was generally predicted that the Bank of England would begin to raise interest rates in 2016, but this was still heavily dependent on external and global factors, and any increase , when it came, was likely to be small and gradual.

The impact on investment income, the costs of borrowing and the returns or savings from investment decisions had to be considered together in order to understand the actual impacts of these decisions. The final impact of completed and planned investment decisions were still being modelled and would be set out in greater detail in subsequent reports as the budget was developed.

Aylesbury Vale Estates

Cabinet and Scrutiny had yet to consider the annual business plan for Aylesbury Vale Estates (AVE). This was largely due to a change of Board membership and the use of the opportunity this presented to re-evaluate the objectives and performance of the vehicle. Whilst officers were engaged in this challenge process, it was premature to bring forward a final business plan. However, the financial models for the next three years (including the current year) were well developed and these would be used as the basis for the Council's MTFP.

The proposed business plan included two scenarios: a base (or central) case and an enhanced case. The enhanced case set out higher predicted returns for the investors, but was more dependent on events not directly under AVE's control. For the purposes of budget planning, the base case would be used, this being the lower risk scenario.

From the Council's perspective, returns from AVE had not grown as expected over previous years. Many of the reasons for this were outside AVE's direct control and were a matter of record, but the Council was increasingly anxious to see AVE move beyond these historic barriers to maximise the benefits and gains promised by the vehicle at its inception. Officers would continue to work with the Board and the Asset Manager to develop plans which would deliver against the Council's aspirations for it in the short to medium term. Progress would be reported to Members through the budget planning process.

Service Based Budgetary Pressures

As part of the budget development process, a review of service based budget pressures would be undertaken. At this stage, and with the possible exception of waste, these were not understood to be extensive.

Savings and Transformational Efficiencies

The Council had been committed to savings, new income generation and transformational programmes for the past few years in recognition of the fact that the national funding position was likely to continue to deteriorate over the life of the MTFP. These programmes were known as "New Business Model" (NBM) programmes. These had already delivered significant contributions to savings targets and it was expected that they would continue to do so. The following table showed the extent of the savings achieved since the Government's reductions in grant funding had commenced, which totalled in excess of £11m:-

Year	Savings / New Income Identified £
2011/12	2,809,700
2012/13	2,030,200
2013/14	1,339,900
2014/15	2,427,600
2015/16	2,456,500
Total	11,063,900

The NBM programmes were designed to enhance and develop new income streams, rationalise existing services and to cease some services where they were not valued by residents. Through this approach the Council had thus far been able to avoid crude cost cutting exercises. Around a third of the savings were being achieved from new income sources, with the remainder being from efficiencies.

Officers had continued to explore transformational pieces of work under the badge of New Business Model in order to deliver the bulk of the predicted savings, with this being supplemented by opportunistic savings where these presented themselves. Whilst the NBM had reaped considerable efficiencies and new income sources over the last 4 to 5 years, there was only so far that such an approach could go before more major structural changes were needed to continue the quest to deliver the level of changes and savings required by the reduction in Government grant. It was believed that the Council was approaching the point where the level and pace would slow dramatically as avenues for change were exhausted without wider fundamental change.

To this end, the senior management team had developed a wholesale restructuring plan for the entire organisation, known as "Sustainable AVDC". This programme was based upon the founding elements of the NBM programme, and applied this to the entire organisation. In summary, its aim was to:-

- React to the increasingly challenging financial position of the Council.

- Deliver automated and more cost efficient forms of service delivery including self serve, aligning the Council with most of the other service providers that residents used in their day to day lives.

- Create greater value and income from more commercial operations to cross subsidise those areas of the Council which could not cover their own costs.

- Focus on the customer at the heart of everything the Council did.

In achieving these aims, there were a number of changes to the way in which the Council was organised, and how staff worked. In summary:-

- Overall, a need for a much more commercial approach and understanding of the Council's business.

- Removal of the silo arrangement of staff, moving them into a more generic approach to fulfilling customers' demands (without losing specialism where these were needed to meet customer demands).

- Detachment of management responsibility from professional expertise – recognising that good management did not always come with specific technical expertise.

- Becoming more flexible in the way the Council worked, and the way in which it served customers, enabling staff, and delivering a process and structure more responsive to new demands from customers and the communities in which they lived.

- Widening the spans of responsibility for managers, making them more corporate as opposed to departmental.

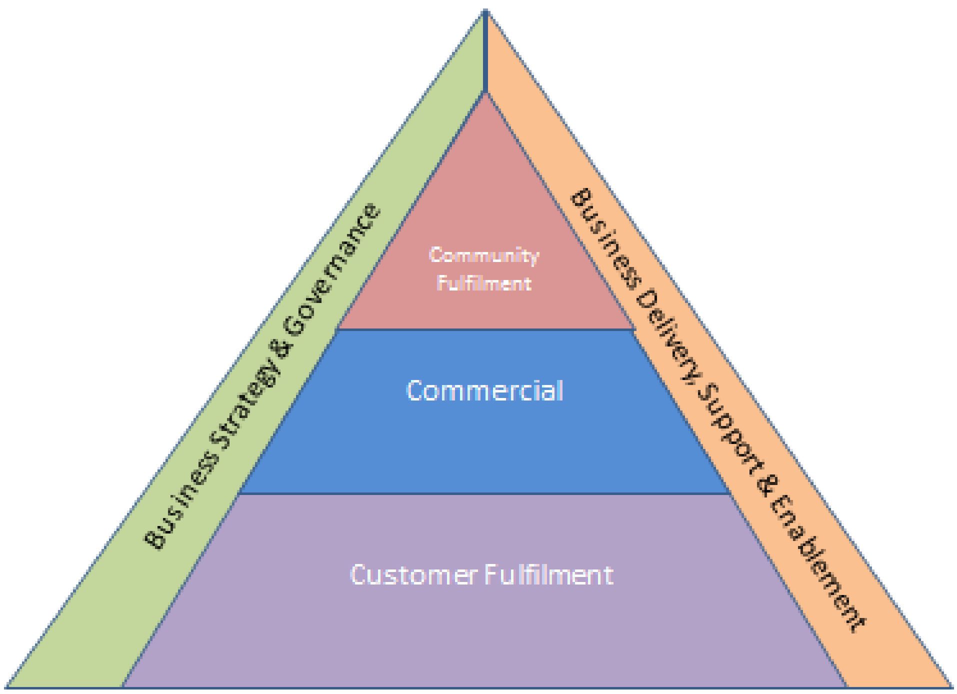
In its simplest form, AVDC needed to be:-

- Orientated around the customer, fulfilling their demands and delivering what they want.

- Providing a speedy response to customer demands, similar to commercial organisations and, more particularly when customers want it.

- Within a cost effective delivery model – at a cost that customers would pay.

To kick start and enable this change, the entire structural model of AVDC would be changing. This was in recognition of the above context and would set AVDC on a new footing to deal with the future challenges ahead. Conceptually, the new AVDC would do away with the historical departmental structure and replace it with a five part, more flexible and universal structure. More details on the broad shape and form were illustrated as below:



Structural Element	Summary Function	Example Current Functions (not exhaustive)
Community Fulfilment	Forming and Delivery of Economic, Community and Growth Strategies to deliver the long term success of the Vale	Forward Plans Strategic Housing Economic Development
Commercial	To create value and profit to sustain the delivery of services long term	Major Capital Programmes Capital Asset Management Commercial Ventures
Customer Fulfilment	To deliver repetitive and predictable services to customer as quickly and efficiently as possible	All services that are requested by customers
Business Strategy & Governance	To strategically steer and guide the development of the AVDC and its affiliates	Legal & Monitoring officer Democratic Services Audit & Compliance Strategic Finance
Business Delivery, Support & Enablement	To operationally support the council in achieving its goals	Day to day transactional support services

The new structure would enable AVDC to be far more reactive to the changes that were required for the coming years. The approach to moving to the new structure would be a three stage process:-

- "lift and shift" staff to the new structure – this would in the main be simple management realignment to move whole teams or sections into the new structure. The aim of this stage was to deliver the new structural layout of the Council as soon as possible. This was likely to take place in early 2016.

- A service review and service change – this stage would consider the work that was done in each part of the new structure, assess the level of demand, the best way to service this, the level of resources required and to deliver a refined new structure within each element of the Council. This stage would take some time to complete. Planning for these reviews would be undertaken between now and November, but indicatively it was anticipated that the review of services across the Council would extend into 2017.

- Implement the above service review changes – delivering efficiencies over the end of 2016/2017 and into 2017/2018. At this stage it was envisaged that this would reap somewhere in the order of £3m once fully implemented. It was envisaged that this would be mainly through a combination of automation, service efficiency and staff reduction.

Members would be updated as a fuller programme became clearer and where changes to staff and responsibilities were known. Whilst the above would deliver against some of the short/medium term budget pressures, there was still some way to go to deliver against the level of savings required to meet the expected MTFP.

Beyond 2016/2017

As had been identified early on in this Minute, the issue that dwarfed all others looking forward was that of continuing to provide services whilst the resources that had historically enabled this to happen were removed. The announcement by the

Chancellor presented a glimmer of hope, but much would depend on the detail of any proposal and this might take some considerable time to materialise. In any event, the timeline presented by the Government for its introduction was beyond the date by which the Government's austerity programme was due to end.

Faced with rapidly decreasing resources from Government and with the on-going pressure on councils not to increase resources from taxation, or by other means, together with new financial burdens placed on local government, the financial outlook remained extremely challenging. Thus far the Council's strategy had been effective, in that by the end of 2015/2016, the cumulative annual savings, additional income generated and efficiency measures would have achieved in excess of £11m.

The baseline target for the MTFP period, prior to review, stood at £6.3m, but there was much uncertainty over the amount and the time within this had to be achieved. There were scenarios whereby this amount might be lower, but equally, it could be greater and required much sooner than had been assumed within the current plan. So the core planning assumption remained that Government grant would cease completely by 2020. Despite all the uncertainties surrounding this, it still seemed to be a realistic central assumption. If true, then the impacts of the continued cuts on local government might mean that it became unsustainable in its current form and this might either encourage much greater collaboration or hasten the need for enforced fundamental re-structure of the existing approach to the provision of services. Given that this was largely outside the control of the Council, it had to continue to look to solve its own financial challenges.

As previously mentioned, the Council's approach was completely focused on being more entrepreneurial to generate new income and to rationalise and reorganise its resources in order to be the most efficient it could in the way in which it delivered service. This approach was sound and represented the one which it was embracing but ultimately, if this approach was unsuccessful, then the last solution would always remain to reduce the amount or quality of the services provided to residents and businesses within the Vale.

Process for Resolving the Budget for 2016/2017

It was hoped that the budget for 2016/2017 could be resolved using the reorganisation and income generating strategies described in this Minute without the need for a crude or simplistic cost cutting exercise. It was believed that this should be possible but, as highlighted, there were some key uncertainties which were unlikely to be resolved until late in the budget setting process. It was therefore proposed to work on refining the budget process making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

The Council had working balances in excess of its stated minimum and these were invaluable in allowing the Council to push forward with new invest to save initiatives or to flex savings targets from one year to the next in the event of unexpected funding pressures or new windfalls. Balances (adding to, or a use of) were therefore likely to form part of the strategy for concluding the balancing of the budget for 2016/2017.

The focus remained on restructuring and new income generation and not upon lists of potential cuts. If a specific proposal required a Cabinet decision, or scrutiny consideration, it would have already been taken through the democratic process at the appropriate time, or be separately identified for debate as part of the budget development process. This would again make the budget process lighter touch and avoided the need to take lists of potential service reductions through scrutiny committees. An initial budget position would be presented to Cabinet in December and would be the subject of scrutiny through the Finance and Services Scrutiny Committee.

Timetable

The report to Cabinet incorporated an indicative timetable leading up to the conclusion of the budget process

RESOLVED –

That the Cabinet report be noted and the approach for developing the 2016/2017 budget and Medium term Financial Plan, be endorsed.

8. TOWARDS AN ENTERPRISE COUNCIL

Consideration was given to a report concerning the formation of a local authority trading company as a vehicle for the Council to generate new income streams over and above current and proposed initiatives. As a distinct commercial entity the company would have the essential commercial flexibility to respond to customer needs and have greater flexibility to engage with partners to help fulfil those needs. The company would be 100% owned by the Authority and would have no private shareholders. All profits generated by the company would be re-invested back to the company or the Council.

Faced with rapidly decreasing resources from Government and with on-going pressure on councils not to increase taxation, together with new financial burdens placed on local government, the financial outlook for councils remained extremely challenging. The Council had responded over the years with a range of initiatives, particularly through the New Business Model programme which had contributed to the delivery of over £11m savings/additional income since 2011.

However in order to achieve a secure financial future, the Council needed to not only reduce costs but also look to more secure additional income streams, and be more commercially minded in the way in which it carried out its business. This had been reflected in the Council's approach to developing the Medium Term Financial Plan (as referred to elsewhere in these Minutes).

Over the past few years the Council had used the flexibility created by the Localism Act, 2011, to explore ways to generate new income through trading. The Council now had a number of trading companies already which included Aylesbury Vale Estates, Novae Consulting Ltd. and Aylesbury Vale Broadband Ltd. It was essential if the Council was to meet the financial challenges ahead for it to progress with the trading element of its income generating work in order to:-

- Maintain front line services over the long term through re-investment of trading profits.
- Develop commercial acumen in tandem with transformation programme efficiencies. This would help staff to develop new skills and abilities and enable them to apply a more commercial approach to their areas of work.
- Ensure a culture of self-reliance which would send a positive message around the potential for growth of Council services.
- Ensure that the Council was best placed to identify and pursue any potential opportunities.

Over the last few months officers had been working with external consultants with particular expertise in the delivery of rapid growth results for companies and transforming business models. Working together they had identified areas which had the potential to generate significant revenue streams for the Council in the future. The key assets the Council had for this commercial venture to succeed were the customer relationships it had developed through existing service provision and trading areas. Using this trusted relationship and through expanding customer base, the Council was in a strong market position to create value added services and products for customers.

The company would have the potential to grow rapidly. The goal would be to generate increasing continuity of revenue streams with minimal resources. However, in order to establish the potential for achieving a substantial source of income for the Council, the focus over the next 6 to 12 months would be on testing a smaller scaled version of the proposed venture. This would lead to the development of a more comprehensive business plan for consideration by the Council as set out in the shareholder agreement.

The initial focus would be to develop a range of offers, products and services to Aylesbury Vale's residents, closely followed by the business community under separate brand identities. For example, by engaging with existing customers of the Council such as garden waste customers, the company would be able to source information, offers and products through affiliate partners such as a garden centre. This model would be similar to other e-commerce companies who sold other suppliers products on their website or provided "local" offers or subscriptions and retained a percentage of transactions as well as managing the customer relationship. The brands identified for the residential and business areas would initially become visible to customers through electronic communication where the link to the Council would be established. (This would keep costs to a minimum).

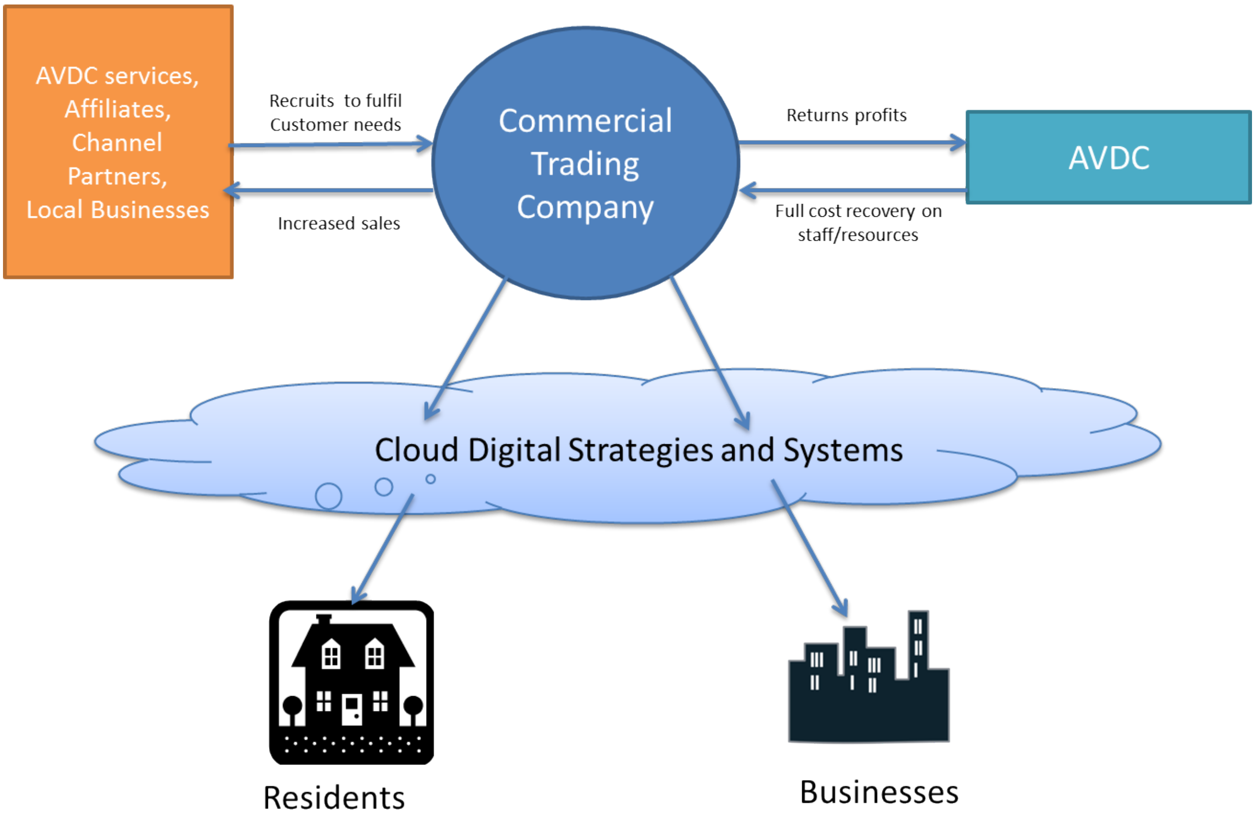
There would be no selling or direct marketing to customers at the first point of contact and at every stage customers would have the option to stop receiving any further communications. The Council would comply with the Data Protection Act, 1998, The Privacy and Electronic Communications Regulations 2003 and all associated Regulations and guidance from the Information Commissioner's office.
The key targets of the proposed company in the initial 6 to 12 months would be to:-

- Grow the customer database (e-mail contacts) by 20%.

- Increase interactions with customers who had engaged at the first point of contact by 20 to 25%.

- Generate revenue to recoup the set up and running costs within 12 months.

A model of how the trading company would operate in simple terms was set out, as illustrated below:-



It was likely that trading would be modest at the outset, especially in the first six months of trading whilst the customer relationships grew and developed. Experience from other local authority trading companies reflected the need to allow the company time to expand and establish its presence and recruit local and national fulfilment partners.

However, it was expected that there would be sufficient trading within the first trading year to cover any company administration and operating costs. As business plans were developed and business opportunities and trading expanded and developed, it might be necessary to establish separate and/or subsidiary trading companies. Again, the decision to take such a course of action would be supported by an appropriate business case approved by Council and be part of the shareholder agreement.

Initial engagement with residents would be with those garden waste customers who had supplied an e-mail address and this was expected to commence shortly. This communication would be from AVDC and would be linked to their garden waste subscription. Through the use of data analytics, this would show how many customers responded to receiving information from the Council and who was interested in continuing to engage through more regular news/information on home and garden related topics.

It was anticipated that the trading company would be established immediately if Council approval was given in accordance with the administrative and governance arrangements set out in this Minute. This would allow the company to start providing further offers to customers and start to engage more widely with local businesses.
To ensure a level playing field with the rest of the private sector and to avoid breaching the state aid rules, the company would not be subsidised by the Council.
The full costs of any borrowing, accommodation and services provided would be recovered by the Council. Suitable administrative and governance arrangements would be established to ensure that this was the case. The direct financial costs associated with the initiative related to the cost of registering a trading company and would be in the

region of £100 plus officer time in preparing the necessary documentation and governance arrangements.

In addition, consultancy support through interim management arrangements would cost approximately £4k per month which would be recovered from trading revenues. Further set up costs relating to software licences and developing initial customer offerings should not be more than £15k and this would be recovered through the revenues of the company. However, in order to facilitate any other potential sales and marketing costs, the company would require working capital and this would be provided by the Council on commercial terms with the repayment terms to be agreed by the Director with responsibility for finance. This would not be in excess of £50k and would be funded from General Working Balances.

It was not possible at present to ascertain the likely income relating to the establishment of this trading company. This would depend on the success of subsequent trading activities, but the expectation during the 6 to 12 months was, as a minimum, to recoup the set up costs and enhance Council efficiency. The longer term success of the commercial operation was expected to significantly contribute to or replace the loss of Government grant in 2020.

It was not anticipated that any staff would transfer to the company during the initial 6 to 12 months period. There would be two dedicated staff working with the external consultants to drive forward the trading opportunities, and these staff would be backfilled. In addition there might be other staff who might need to provide support but this would be achieved through service level agreements with the company.

This new commercial venture fitted well the Council's increased appetite for seeking income opportunities where the benefits outweighed the risks. Reputationally the Council would be demonstrating its desire to operate in an entrepreneurial way for the benefit of local taxpayers, and businesses as well as the wider community and local economy, whilst keeping the core values of trust. However it was recognised that there might be some who would not see the benefits in the same way, but through the initial success of greater engagement with customers, the Council would be able to have testimonials and greater evidence of the benefits.

Financially the Council was not committing a significant upfront investment and, whilst there was some uncertainty about the level of return which would be generated through the trading company, this would be quickly reduced as the level of responses to early engagement activities started to feed back. Overall, it was considered that the risk associated with the actual formation of the company was low and that the trading activities and resultant impact on the Council would be beneficial.

More specific risks associated in general terms with the formation of a local authority trading company and some of the operational risks were as follows:-

Area of risk/uncertainty	Confidence in ability to Manage Risk	Risk Management
Failure to set up the trading company in strict compliance with legislation	High	External legal advice sought, existing companies already established by AVDC which can act as a model
Challenge to state aid	High	Full cost recovery and service level agreements would be in place
Possible conflicts of interest arising for members or officers acting as Directors	High	Clear code of conduct arrangements in place

Breach of Data Protection Act	High	Evidence supplied to the satisfaction of the Information Governance Group on how personal data would be safeguarded.
Breach of The Privacy and Electronic Communications Regulations 2003,and non compliance with the Information Commissioners Office	High	Best practice adopted for email marketing and opportunity at every stage for customers to opt out
Failure to comply with taxation laws	High	Professional advice to be sought.
Conflict of interest over workload priorities with other council projects/initiatives	Medium	Priorities set from the top to support the venture and internal realignment and communications would reinforce importance of working to make the venture successful. This would need monitoring
Failure of a supplier or affiliate	Medium	Vetting of suppliers prior to engagement and ability to switch quickly to minimise impact on customers but may not be able to eliminate risk
Cyber security risks	Medium	Complete cyber risk assessments and meet industry best practice Need to consider cyber risk insurance

It had been recommended by the Council's legal advisors that the trading company should be a company limited by shares so that the Council could have oversight of the company's trading activities and approve significant strategic and operational decisions of the company. The degree of oversight and control would be set out in the shareholders agreement.

The company would have its own legal identity and also have the benefit of limited liability. Consequently the debts of the company would stay within the company and any creditors would not have recourse to the Council or any company directors except in exceptional circumstances. The company could set up other companies to focus on specific income generation.

The company would have a board of directors and it was proposed that delegated authority be given to the Chief Executive, after consultation with the Leader and Cabinet Member for Business Transformation to initially appoint directors. The directors of the company would have responsibility for managing the affairs of the company and ensuring a proper trading environment. They would be responsible for the day to day management and for making recommendations to the Council as shareholder as to the direction of company travel. They would be bound by the shareholders agreement limiting their freedom to undertake certain actions.

All directors would need to comply with their statutory duties under the Companies Act 2006, including a duty to act in the best interests of the company and to avoid conflicts of interest. Council Members and/or employees appointed as directors would need to be aware that potential conflicts of interest might arise when carrying out their roles for the Council and when acting as directors for the company. Member directors would still be bound by the Members' Code of Conduct, insofar as this Code did not conflict with their legal obligations as directors. An outline of these duties, responsibilities and liabilities would be provided to the directors as part of their letters of appointment.

As the sole shareholder of the company, the Council would have overall control of the company. It was often necessary in business to make rapid business decisions. Where those decisions fell outside the powers available to directors of the company, then they would need to be referred to the appropriate decision making body of the Council in an expedited fashion. A scheme of delegations would be developed to clarify decisions that could be taken by staff and directors of the company and those which would have to be referred to the Council as reserved matters under the shareholders agreement.

The company would be bound by a shareholder agreement. This agreement would ensure that the company could not do certain things without the express approval of the Council. It would detail the powers of the board of the company and how and when the Council might influence the company. It might relate to issues such as production of business plans, regular reports to Council, consents for acquisition and disposal of assets, loans and distribution of profits. The shareholders agreement could be amended and developed as necessary to ensure that a proper balance of powers between the company and the Council remained as the company grew.

The company would also be bound by the Articles of Association which would set out the objectives of the company. These had to be clearly laid out in order for the company to trade in all the proposed areas. The Articles of Association also outlined the conduct of Board meetings and representation on the Board and the shareholder's rights and obligations including voting rights. Service level agreements would be completed with the Council regarding the use of Council staff and resources.

It was proposed that the company would initially use Council accommodation and resources in its operations and would reimburse the Council for doing so. The proposals should not have any direct implications for staff as it was not proposed that any staff would transfer to the company. Staff might at times be working on company business, but that time and resource would be charged to the company. In the longer term, the company might employ its own staff subject to the demands and prospects of its trading functions.

In order to protect commercial confidentially, it was felt that the final company name and trading styles should be determined by the Chief Executive, after consultation with the Leader, Cabinet Member for Business Transformation and the proposed directors. The company would be purchased "off the shelf" in order to facilitate the administrative process. The company would have to abide by UK company and taxation legislation, including the filing of returns and accounts. The general administrative demands of the company would be met from within existing expertise within the Council.

Sections 1 and 4 of the Localism Act, 2011, and Section 95(4) of the Local Government (Best Value Authorities) (Power to Trade) (England) Order, 2009 mandated that certain local authority trading had to be carried out through a company, following the prior preparation and approval of a business case by the Council.

The Council would need to ensure that the arrangements complied with the Public Contracts Regulations, 2015. If at any time the company decided to change its business model, and for example started providing services for the Council, then the "teckal" rules might apply. The Council's legal advisors would advise the Council on compliance with the Regulations.

Operating a trading arm through a company vehicle such as a limited company required that the directors should operate in accordance with UK company law. Although the company had limited liability, the directors of that company might individually face claims for wrongful operation of the company. It was therefore agreed that the Council should indemnify the directors through appropriate directors liability insurance both whilst acting as a director and for a period of six years following cessation as a company director.

The Council had to comply with the Data Protection Act, 1998, The Privacy and Electronic Communications Regulations 2003 and associated Regulations, because it would be processing personal data and engaging in marketing.

Officers had had informal preliminary discussions with the Council's legal advisors about the principle of setting up a trading company. They were supportive of the proposed approach and welcomed the innovation that the Council continued to promote in response to the financial challenges. They had also emphasised the importance of ensuring that the detailed arrangements were carefully considered to ensure that they were tax efficient. Prior to finalising the incorporation of the trading company, there would be further discussions with the Council's legal advisors to ensure that the detailed arrangements were in the Council's best interests in terms of both allowing it to exploit income generation streams which could not be developed without utilising a trading company, as well as enabling the Council to maximise longer term opportunities.

RESOLVED –

That Council be recommended to:-

(1) Approve the business case as set out in the body of the Cabinet report and the creation and incorporation of a wholly owned local authority trading company in accordance with option (1) contained in the report.

(2) Grant delegated authority to the Chief Executive, after consultation with the Leader and the Cabinet Member for Business Transformation, to decide on the final company name and the date and details of incorporation of the trading company.

(3) Grant delegated authority to the Chief Executive, after consultation with the Leader and the Cabinet Member for Business Transformation, to determine the number and appointment of directors to the trading company.

(4) Grant delegated authority to the Chief Executive, after consultation with the Leader and the Cabinet Member for Business Transformation, to agree and sign a shareholder agreement, Articles of Association and a service level agreement between the Council and the company.

(5) Approve a loan of up to £50k on commercial terms as working capital for the company from General Working Balances and to delegate authority to the Director with responsibility for finance to agree the loan repayment terms.

(6) Agree to indemnify the company directors against personal liability while acting for the company through appropriate directors liability insurance.