

**ACCEPTANCE OF THE GOVERNMENT'S 4 YEAR GRANT SETTLEMENT OFFER**  
**Councillor Mordue**  
**Cabinet Member for Finance, Resources and Compliance**

**1. SUMMARY**

- 1.1 As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government made an offer to councils to take up a four-year funding settlement for the period 2016/17 to 2019/20. To accept this offer, an Efficiency Plan must be prepared and published by 14th October 2016. The Secretary of State has not issued guidance on what an efficiency plan should contain, a development that local government broadly welcomes.
- 1.2 This report proposes that the offer is accepted as it will create some certainty over a significant part of the Council's future resources and allow the Council to create Medium Term Financial Planning Targets with greater certainty over the amount required to balance the budget.

**2. RECOMMENDATIONS**

- 2.1 That Cabinet agrees to recommend to Council:

Acceptance of the Government's 4 year funding offer and submission of a link to the attached Appendix A & B as its Efficiency Plan and supporting evidence in order to satisfy the conditions of acceptance of the four year funding settlement for the period 2016/17 to 2019/20.

**3. PROPOSALS**

- 3.1 The offer made by the Government, as part of the Spending Review, is to any council that wished to take up a four year funding settlement up to 2019/20. The purpose of this offer is to help local authorities prepare for the move to a more self-sufficient resource base by 2020. The multi-year settlements is intended to provide funding certainty and stability for the sector that should enable more proactive planning of service delivery and support strategic collaboration with local partners. The Government expects these multi-year settlements to be used to "strengthen financial management and efficiency, including maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents".
- 3.2 The Medium Term Financial Strategy agreed by Council in February 2016 incorporates the funding provided within the four year settlement offer. However, it relates only to Revenue Support grant (RSG) which is a reducing proportion of total Council funding, currently £1.569m in 2016/17 decreasing to a negative figure (payment to the Government) of £0.687m in 2019/20. If this offer is accepted, it provides greater certainty as the funding received will not be less than outlined in the final settlement and would not be subject to the yearly process determining the local government finance settlement.
- 3.3 The Grant Settlement number has always been a volatile and difficult to predict element of budget planning and the certainty provided by a 4 year settlement will allow the Council to plan with greater certainty in the later

years of the MTFP period. The following table sets out the Settlement Funding Assessment (SFA) per year including RSG:

	2016-17 £M	2017-18 £M	2018-19 £M	2019-20* £M
Settlement Funding Assessment	5.21	4.30	3.83	3.26
of which:				
Revenue Support Grant	1.57	0.58	0	0
Baseline Funding Level	3.65	3.72	3.83	3.95
Tariff/Top-Up	-16.16	-16.47	-16.96	-17.50
Tariff/Top-Up adjustment				-0.69

3.4 The offer made by the Government is as follows:

“On 9 February we provided summaries and breakdown figures for each year to your s151 Officer. From those figures the relevant lines that are included in the multi-year settlement offer, where appropriate, are:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention. The Government is committed to local government retaining 100% of its business rate revenues by the end of this Parliament. This will give them control over an additional £13 billion of tax that they collect. To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate. The new burdens doctrine operates outside the settlement, so accepting this offer will not impact on any new burden payments agreed over the course of the four years. The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year”.

3.5 No guidance has been issued from Government for the production of these Efficiency plans but it must cover the full 4 year period and be open and transparent about the benefits this will bring to both the council and the community. Further the Government does not expect this to be a significant burden on councils but rather a drawing together of existing corporate plans and strategies, and this has been the approach adopted to produce this Efficiency Plan.

3.6 At the time the Council set its budget in February 2016, the detail of what the Plan should contain, nor the process for accepting the offer were known and although Council delegated authority to the Director with responsibility for Finance, in consultation with the Cabinet member for Finance, Resources and

Compliance, it requested that it should like to make the decision on acceptance if time permitted.

- 3.7 Ultimately, the process and the requirement for acceptance proved to be light touch and although no special report or strategy is required this report is presented to Cabinet to recommend acceptance to Council in accordance with Council's request.
- 3.8 The Council has already agreed the basis of its efficiency statement as part of its strategy for balancing the budget within its Medium Term Financial Plan. This is an integral part of the Budget adoption process in February 2016 and the budget report approved by Council is reproduced as Appendix A to this report for members' information. In accepting the Government's offer the Secretary of State will be directed to this statement as demonstration of compliance with the terms of acceptance.
- 3.9 The Council has a proven track record of being innovative and creative in terms of its approach to identifying solutions to the budget gap created by the ongoing reductions in Government Grant. Evidence of this can be further found in the form of the two conferences which the Council has recently held for its peers to showcase the income generation and efficiency solutions it has developed. A document has been attached as Appendix B to this report highlighting some of the more innovative achievements identified thus far.

#### **4. OPTIONS & ALTERNATIVES CONSIDERED**

- 4.1 If the offer to take up the four year funding settlement for the period 2016/17 to 2019/20 is accepted, an Efficiency Plan must be prepared and published by 14th October 2016. This offer relates to the RSG funding incorporated within the MTFS for the 4 year period 2016/17 to 2019/20 and ensures that it will remain uncharged "barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement.
- 4.2 If the four year offer is not accepted the RSG funding would be subject to the existing yearly process for determining the local government finance settlement. Allocations could be subject to additional reductions dependent on the fiscal climate and the need to make further savings to reduce the deficit.
- 4.3 Submitting the Efficiency Plan will mean that the Council will be seeking a 4 year settlement. This is, as is set out in the report, likely to be more favourable in terms of the Council's settlement going forward and gives a greater certainty on its budget setting. As it has a relationship to the Council's budget setting for the next 4 years it is recommended that Full Council's endorsement is sought.

## BUDGET 2016/17 AND THE MEDIUM TERM FINANCIAL PLAN

Councillor Mordue

Cabinet Member for Finance, Resources and Compliance

### 1 Purpose

This report covers two areas of budget determination for 2016-17. It presents the proposals for the budget, as recommended by Cabinet on 11 January 2016. It also contains the Chief Financial Officer's report on the robustness of the budget proposals and the adequacy of reserves.

### 2 Recommendations/for decision

Council is recommended to:

Note the contents of the statement of the Chief Financial Officer in Appendix A.

#### 2.1 Agree a budget package which:

- a. Increases Council Tax by the maximum 1.99% permissible by the lower tier councils.
- b. Includes a General Fund budget that results in net expenditure of £15,076,900 and a District precept of £9,652,300.
- c. In arriving at that figure, requires a planned use of revenue working balances in 2016-17 equal to £90,900, potentially adjusted by the Final Grant numbers expected to be announced Mid February 2016.
- d. Has an expenditure total of £846,600 and a precept of £815,500 in respect of Aylesbury Special Expenses giving an unchanged band D Special Expense Council Tax of £45.00 for 2016-17.
- e. The proposed General Fund net expenditure for each of the following years as the basis of future budget planning is as follows:  

2017-18	£14,452,800	2018-19	£14,261,600	2019-20	£14,021,800
2020-21	£13,791,200				
- f. Delegates authority to the Director with responsibility for Finance, in consultation with the Cabinet Member for Finance, Resources and Compliance, to approve a budgetary framework and allocations from a sum of £600,000, which is to be ringfenced from General Working Balances to fund the AVDC change programme.
- g. Should the timeframe require it, delegate authority to the Director with responsibility for Finance, in consultation with the Cabinet Member for Finance, Resources and Compliance, to decide whether to accept the Government's 4 year offer in respect of certainty over Grant numbers.

### 3 Background

- 3.1 The report to Cabinet on 10 December 2015 presented a set of initial budget proposals for Cabinet's consideration.
- 3.2 On the 11 January 2016, Cabinet reconsidered its initial budget proposals in light of the provisional Government Grant Settlement and the comments made by the Finance and Services Scrutiny Committee. Based upon this additional information it made minor amendments consistent with the approach proposed in its initial report.

#### **4 The Cabinet's Budget Recommendation**

- 4.1 Cabinet considered the development of the budget at 3 separate meetings in November, December and January. The latter meeting being informed by the views of Finance and Service Scrutiny Committee.
- 4.2 The budget process was again a contracted process and was similar to that adopted in the previous two years. This was necessary in order to adapt to the uncertainty resulting from the Government's late announcement of grant allocations.
- 4.3 This shortened process was enabled by the on-going work being undertaken by officers and members to deliver savings via fundamental service reviews, new income generation and other transformational work.
- 4.4 The Budget proposal and Medium Term Financial Plan is attached as Appendix B to this report and is explained in more detail in the following paragraphs.
- 4.5 The main theme of budget development was the uncertainty surrounding the Government's proposed reforms to the local government finance system and the implications for the Council arising from them.
- 4.6 The expected late publication of the proposed Grant numbers severely reduced the Council's ability to plan for any changes beyond that assumed within the initial projections. This resulted in the Council relying on a small use of balances as the only realistic way of reacting to the numbers in the short window between their announcement and the date for publishing these final proposals.
- 4.7 The budget development process recognised this, together with the uncertainties surrounding retained Business Rates and potential changes to the funding received from the New Homes Bonus.

#### **5 Spending Review and the Proposed Government Grant Allocations**

- 5.1 The Chancellor announced his Spending Review on 25<sup>th</sup> November 2015. This set out the Government's funding intentions for the life of the Parliament. On the whole, the news for local government was probably less bad than had been feared, but the messages were confused and the detail was largely missing so the true extent of the impact could only be determined once the Government published its consultation on Grant numbers later in December.
- 5.2 Despite this, it could be determined that Local Government would still experience some of the greatest cuts of any of the Government's main spending departments.
- 5.3 From the perspective of a lower tier council, there was also the announcement that the Government intended to redistribute within the tiers of local government in order to direct resources towards Adult Social Care. This has the impact of significantly compounding the cuts to district councils and is potentially of greater concern than the expected reduction in core funding.
- 5.4 The Government also proposed an apprenticeship levy equal to 0.5% of the wage bill of all organisations where wage bills are in excess of £3 million. This is to be

offset by an allowance of £15,000 for each apprentice on the organisation's books. This will be introduced from April 2017.

- 5.5 The Chancellor further announced that he would extend Small Business Rate Relief from the 31<sup>st</sup> March 2016 for a further year but signalled the end to some of the additional retail reliefs introduced during last year's budget.

## **6 Government Grant**

- 6.1 The Government announced the Grant settlement for councils on the 17<sup>th</sup> December 2015.
- 6.2 The headline figures indicate that the Authority's pessimism was warranted as grant was reduced in line with expectations. The allocation for 2016/17 was fractionally more, (£18,700), than had been assumed within the initial budget planning proposals. The final number is therefore a reduction for 2016/17 in excess of £1.1 million, representing a loss of 17.5% of the Council's core grant.
- 6.3 The size of the difference between estimated and actual allocations belies a significant shift in the way Government intends to calculate future Grant entitlement. The Government proposes to take into consideration the whole of a council's core income (this includes Grant, Business Rates and Council Tax) when applying future cuts, rather than salami-slicing RSG as has happened in previous years.
- 6.4 The Government's aim is to ensure that all councils see an equally proportionate reduction in their resources each year as opposed to councils which have the greatest reliance on Grant being impacted to the greatest extent. This should represent good news for those councils with a greater grant-reliance.
- 6.5 Unexpectedly, the Government also offered, to those councils that want them, settlement numbers through to 2019/20 (4 years in total). In order to qualify, the Government is indicating that it requires councils to produce and publish an efficiency plan.
- 6.6 The mechanism for accepting the offer has not been made clear within the consultation paper, but it may require a formal resolution of Council.
- 6.7 Similarly, the consequences of not accepting the offer are also unclear, but it is assumed that this leaves the Council open to the vagaries of the annual grant allocation process. The Secretary of State has indicated during interviews that for authorities which chose not to accept the Government's offer there is only the possibility of less Grant.
- 6.8 At face value, the certainty provided by a 4 year settlement will be useful in financial planning terms. The detail around the content and the method for accepting the offer is expected, together with the results on the consultation over the Provisional Grant numbers, around mid February.
- 6.9 As the expected announcement of the conditions and requirements sits beyond the date of this meeting and may only include a short window of opportunity for accepting the offer it is recommended that, (providing there are no onerous conditions attached), authority is given to the Director responsible for Finance in

consultation with the Cabinet member for Finance, Resources and Compliance to reply on the Authority's behalf.

6.10 The numbers for Aylesbury Vale still show large reductions year on year, but are not as severe as had been feared and have the impact of reducing the savings required across the remainder of the Financial Plan.

6.11 As a consequence, the savings which still need to be identified over the life of the Medium Term Financial Plan are now just under £5 million instead of just over £7 million.

6.12 The numbers continue to show AVDC losing Revenue Support Grant at much the same rate as predicted until 2018/19 where the Council effectively becomes Grant free. At that point it will only have Retained Business Rates, which the Government considers to be local resources.

6.13 In recent years the Council's financial planning has been constructed on the basis that the Government would not leave alone those councils who exited grant. It further anticipated that it would still apply reductions to those councils which no longer received grant, so as to spread the impact evenly. Consistent with this prediction, the Consultation included the following statement.

*"It follows that some councils with less Revenue Support Grant in later years, will need to contribute funding from the other elements of their settlement core funding in order to meet the overall reductions to local government funding set in the Spending Review."*

6.14 Simplified, this means that even after Aylesbury Vale exits the Grant regime it will still be required to contribute from local resources (Business Rates or Council Tax) towards the national savings target. In essence, the Government is introducing a negative grant element.

6.15 The numbers indicate that Aylesbury Vale will start to pay a Tariff Adjustment (Negative Grant) in 2018/19, initially at a very low level, but it will increase progressively thereafter.

6.16 The announcement also included the rolling in of existing, separate grant streams, notably for Aylesbury Vale this includes the 2015 Council Tax Freeze Grant. This was equal to £82,100 and will need to be accounted for in the final budget proposals.

6.17 Overall, the Grant numbers for 2016/17 varied by much less than had been feared, given the considerable uncertainty over how the Government would choose to introduce its policy initiatives. The final variation was sufficiently close to that used in the initial planning proposals to have no significant impact on the budget planning process and the resultant variance, together with other minor adjustments to the final numbers, are recommended to be accommodated through a small use of balances (£90,900) in the 2016/17 budget plan.

6.18 This Use of Balances will be added to the savings target in 2017/18, which has also now improved as a consequence of the Grant settlement numbers for that year being marginally higher than expected.

6.19 The table below sets out an analysis of the Grants settlement, comparing the proposed numbers with those from last year.

	<b>Actual 2015/16 £</b>	<b>Actual 2016/17 £</b>	<b>Change £</b>	<b>%</b>
Core Grant (RSG + NNDR)	6,320,400	5,214,600	1,105,800	
Council Tax Freeze Grant	82,100	0	82,100	
<b>Total Grant</b>	<b>6,402,500</b>	<b>5,214,600</b>	<b>-1,187,900</b>	<b>-18.6%</b>

6.20 By way of comparison, the reduction in Government Grant recognised in last year's budget was £1,195,712. Any straight comparison with 2010/11 (when the reductions in grant support began) remains difficult because of changes to various grant streams, in particular Council Tax Benefit funding. However, using the best like for like comparison, the reduction in Government Grant over this timeframe is now £7.8 million or 60%.

## **7 New Homes Bonus**

7.1 As part of the Grant settlement, the Government announcement that New Homes Bonus would be paid in 2016/17. It also proposed that the basis for distribution remains unchanged in 2016/17, but a consultation document was issued alongside the settlement proposing changes thereafter.

7.2 The Chancellor signalled his intention to review the operation and distribution of New Homes Bonus within the Spending Review and so the confirmation of the award in 2016/17 was welcome news.

7.3 This allows the Council to continue to fund its Waterside North development in the manner proposed within the recently approved Capital Programme.

7.4 Aylesbury Vale District Council will receive £8,281,102 in 2016/17.

7.5 The consultation paper proposes both a reduction in the benefit, by reducing the time that it is payable, and a sharpening of the scheme's focus. Notably, it seeks views on;

- Limiting the benefit from 6 to 4, or even 2 years
- Reducing or removing the bonus on developments initially rejected by councils
- Reducing or removing the bonus from those councils without a local plan
- Setting an element of targeted growth
- Transitional protection for those councils impacted by the greatest amounts

7.6 The Government's intention is to reduce the amount of Bonus payable and so, as the district receiving the greatest bonus, many of the proposals will have a proportionately greater impact on this council. Modelling of allocations into future years see the awards to this Council drop away significantly from current levels.

7.7 The Cabinet's proposals advocate not increasing the contribution from New Homes Bonus into the revenue budget, given the uncertainty surrounding its future. Whilst the award has now been confirmed for 2016/17 increasing revenue dependency on the Bonus would be imprudent at this time.

7.8 With the uncertainty hanging over future rewards under the New Homes Bonus scheme the Council may need to review the ongoing policy in relation to how it



uses the amounts it receives, e.g. should it continue to take the same amounts into revenue and should it allocate the same proportion to parishes. However, this cannot reasonably be done until the Government publishes its final consultation response.

- 7.9 The Government is seeking responses to the consultation by 10<sup>th</sup> March.
- 7.10 This Council's reward is based upon the delivery of 6,284 new dwellings over the past 6 years together with 189 long term empty properties being brought back into use.
- 7.11 It is recommended that Council commits to a continuation of the Parish scheme in 2016/17 but that it is clearly messaged that the amount allocated to the scheme in future is in doubt pending the Government's review of NHB.

## **8 Measure of Spending Power**

- 8.1 Alongside the Grant Settlement, the Government published its Spending Power measure. This shows Aylesbury Vale's position as having increased from £22.7 million to £24.1 million, an increase of 6%.
- 8.2 Crucially, the calculation of this number includes allocations of New Homes Bonus and, as set out in the previous section of this report, £8.28 million of the £24.1 million represents this Council's NHB award.
- 8.3 Aylesbury Vale District Council has gained under the New Homes Bonus scheme by virtue of the large amounts of housing growth witnessed in the Vale, (the largest growth of any district since NHB began). The increase in the Bonus derived from housing growth is, therefore, greater than the loss of core grant. As a consequence, it shows Aylesbury Vale as still having a net increase in resources.
- 8.4 However, for the Council to be better off as indicated by the Spending Power measure, all of the New Homes Bonus money would need to be put into the revenue budget and not just the proportion set out within the New Homes Bonus Policy agreed by Council.
- 8.5 The Council has consistently maintained that this would make it increasingly dependant on New Homes Bonus for the provision of core services (something which it foresaw as a high risk strategy), but it would also mean that the Council would be unable to deliver much of the infrastructure investment associated with housing growth.
- 8.6 The proposed changes to the scheme contained with the consultation document vindicate the Council's caution in terms of using the Bonus in the revenue budget.
- 8.7 If New Homes Bonus is removed from the equation, the impact for Aylesbury Vale is reversed. This then shows the Council as losing 3.7% of its Spending Power in 2016/17 (comparatively 6.2% in 2015/16).

## **9 Retained Business Rates**

- 9.1 The report to Cabinet in November explained in more detail the background to this funding stream, the difficulties in accurately predicting business rate growth and, more importantly, potential reductions through appeals.

- 9.2 For budget planning purposes a cautious extrapolation of current changes has been projected forward to arrive at a starting position for 2016/17. This reflects some uplift through the annual RPI adjustment (0.8%) in the Business Rates Multiplier (as determined by Central Government) and assumes that Growth will exceed Appeals during the next year.
- 9.3 Whilst some growth is suggested by the planning work, its extent is uncertain and so it is considered imprudent to set a budget which significantly relies on this in 2016/17.
- 9.4 The Government has announced a significant review of Business Rates Retention, commencing early 2016, which will set out the expected future for the scheme, including its intention to divert more of the gain from this system to authorities with responsibility for Adult Social Care.
- 9.5 In light of these concerns, it is proposed that any gain (outside of that generated through Pooling, discussed later in this report) or loss achieved in the year will be managed through the Business Rate Equalisation Reserve in 2016/17.
- 9.6 If at that point any growth is considered to be sustainable and the longer term position in relation to the retention of gains is clarified, then it will be captured in the budget beyond 2016/17.

## **10 Business Rates Pooling**

- 10.1 It was reported to Cabinet in December that an application had been submitted to create a Business Rates Pool naming Bucks County Council, South Bucks District Council, Chiltern District Council, Aylesbury Vale District Council and Bucks Fire and Rescue even though the Government had not invited any applications.
- 10.2 This Pooling composition being selected on the basis of those districts where it was felt the maximum gain could be generated in 2016/17.
- 10.3 Given that the Government had not invited applications, the designation came as something of a surprise and the officers of the respective councils are now meeting regularly to review and validate key assumptions.
- 10.4 Whilst in previous years the Council was named in applications but subsequently withdrew over concerns as to the potential level of appeals, this year those councils named have agreed to proceed with the Pooling proposal.

## **11 Fees and Charges**

- 11.1 In line with the precedent created last year the review of Fees and Charges was consolidated into a single list for consideration by Cabinet in December.
- 11.2 There were no substantive comments received from Finance and Services Scrutiny on the proposed charges and so the proposals were agreed by Cabinet at its January meeting.

## **12 Savings and Income Identification Options**

- 12.1 The report to Cabinet in November adopted an approach to formulating its budget proposals similar to that followed in recent years and relied primarily on capitalising on the savings delivered via reorganisation, income generation and restructuring during 2015/16 in anticipation of the Government Grant reductions.
- 12.2 Since the prospect of greatly reduced Government Grant was first mooted in 2010/11 the Council has devoted considerable effort and resources to identifying and delivering a smaller net budget requirement. This has been achieved by fundamentally reconsidering what it does. This work has been badged as New Business Model and members of the Council will be familiar with the term.
- 12.3 The work undertaken over the past 12 months in recognition of the forecast financial pressures has delivered significant savings and many of these are already accruing in the current financial year, thereby contributing in part to the current forecast underspend for 2015/16. This work was carried out with the expectation that these transformational and efficiency measures would replace the need for a crude annual cuts exercise. This planned response to budget reductions represents a cornerstone of the budget development process.
- 12.4 In addition to the major transformation exercises a number of other savings have been generated as a result of service managers reviewing budgets for efficiencies and income derived from major projects, such as the University Campus Aylesbury Vale.
- 12.5 A list of the significant savings to be incorporated into budget planning is set out in Appendix D to this report.
- 12.6 These savings total £2.83 million in 2016/17.

## **13 Budget Pressures**

- 13.1 Cabinet considered the forecast budgetary pressure facing the Council in December and has made provision for those it considered to be unavoidable in the budget proposals recommended here. The sums to be included are set out within Appendix E to this report.
- 13.2 The total service based pressures within the budget proposals sum to £2,227,000, of which (£559,000) represents a general provision for inflation and pay.
- 13.3 At this time, agreement has yet to be reached on Pay, but it is hoped that a paper will be brought to Council at the end of February 2016 with a recommendation that can be accommodated within the sum provided.

## **14 Investments / Net Borrowing**

- 14.1 Council has been using its cash balances over the past few years in lieu of long term borrowing. This delivers an advantage over lending returns whilst base rates remain low. The financial advantage in terms of lower borrowing costs has been factored into the initial budget proposal.
- 14.2 As identified last year, the on-going low Bank Base Rate is creating financial pressure. Since 2010 the shortfall in investment earnings, which has arisen from

the record low base rate, have been smoothed via the use of the Interest Rate Equalisation Reserve. This Reserve was created from excess interest earnings in times when the Base Rate was considerably higher than its present level.

- 14.3 This Reserve has been used effectively over the past few years to smooth the budget pressure created by the lower interest rates in the realistic expectation that rates would recover.
- 14.4 Whilst Rates are now forecast to potentially start increasing, this will be gradual and the timeframe is expected to be lengthy.
- 14.5 Therefore, any further ongoing use of the Reserve is unsustainable and, as previously identified, the Council's reliance on the Interest Equalisation Reserve will need to be curtailed.
- 14.6 Consequently, a reduction has been factored in to the Medium Term Financial Plan, bringing the recognition of investment income down to what is considered to be a sustainable ongoing level. Last year, as part of that budget planning exercise, it was proposed that a zero use of the Reserve should be achieved by 2017/18.
- 14.7 After reviewing the Balance on this particular Reserve it is deemed that the move to zero usage could be pushed out a further year and that no further reduction is required in 2016/17, but that reductions should instead take place in 2017/18 and 2018/19.

## **15 Aylesbury Vale Estates**

- 15.1 A revised business plan has yet to be agreed by the Board of AVE. This has primarily been to allow the revised Board membership on the AVDC side to understand the business pressures facing the vehicle and to seek proposals for improving the financial performance to a position more in line with the original expectations.
- 15.2 A business plan is being developed and it is expected that this will be presented to both Cabinet and Scrutiny early in 2016.
- 15.3 Dividend payments are forecast within the developing version of the AVE Business Plan for 2016/17 and in keeping with the realistic expectation that these will be delivered they have been reflected within the budget proposal presented here.

## **16 Reserves**

- 16.1 Earmarked reserves represent the prudent saving of sums against the recognition of future financial events which, if not prepared for, would be difficult to deal with at the point they occur. In short, earmarked reserves are an essential part of sound financial planning.
- 16.2 The Cabinet member for Finance, Resources and Compliance has undertaken a high level review of the adequacy the Council's Reserves and Provisions.
- 16.3 With the national focus on the reduction in resources and continuing media interest, it is unfortunate that the Council's earmarked reserves position has shown a considerable jump as this belies the reality of the situation the Council is facing.

- 16.4 The principal explanation behind the increase is the sizeable amounts of New Homes Bonus being received by the Council on the back of the significant housing growth in the Vale and the difficulty in delivering infrastructure schemes in a short timeframe. The consequence of this is the ring fencing of these sums in Reserves pending the delivery of the schemes.
- 16.5 If these sums are excluded then the findings of the review show that whilst the overall level of the Council's reserves have remained broadly constant, there was a significant use of reserves in 2014/15 which was largely offset by the extra provision for the local plan development process and the defence of planning decisions against appeals.
- 16.6 The vast majority of reserves held are for legitimate reasons and that the balances are reasonable given a fair assessment of the budgetary pressures that they are held against.
- 16.7 The total balance held in reserves is expected to dip significantly over the next 2 years as the pressures against which they are held materialise and the infrastructure schemes, for which New Homes Bonus is held, are delivered.
- 16.8 Where the revenue budget is dependent upon the use of funding from reserves, reliance is being reduced to the point where the budget is deemed to be sustainable.

## **17 Balances**

- 17.1 The Council holds general working balances as insurance against unexpected financial events. This includes failure to generate expected income as well as financial claims against the Council.
- 17.2 The current minimum assessed level of balances is £2.5 million, which has been arrived at based upon a risk and probability assessment of potential budgetary factors during 2016/17.
- 17.3 This remains unchanged on the previous year and is a reflection of the uncertainty surrounding the impact of the Government's changes to the Grant system and the impacts of Business Rates plus the financial concerns over the size of the change agenda in response to this uncertainty.
- 17.4 The Government has recognised that part of the reason councils have held high levels of working balances was because of the uncertainties surrounding the size and level of Grant reductions they might expect. Part of the Government's objective in announcing the potential of a 4 year settlement deal is to address these concerns, thereby removing the uncertainty and allowing councils to hold lower levels of balances in future.
- 17.5 Uncertainty over Grant numbers is one of the factors justifying the current assessed minimum level of required working balances, but is far from the only justification.
- 17.6 However, if confirmed by the Government, the certainty is welcomed and would potentially allow for the partial reduction in the current target level of balances.

- 17.7 The September Quarterly Digest projected savings against budget for the year in excess of £1,000,000. Some of this represents “one off” additional income such as that relating to property income, but a significant element is attributed to work undertaken by officers and Portfolio holders to deliver savings targets.
- 17.8 With the cost of developing the VALP and defending hostile planning applications being of particular concern at the moment, it is considered prudent to set aside excess Planning income from 2015/16 in a specific reserve held for this purpose. A review will take place at the year end to see how much funding is likely to be required and how much could be set aside for that purpose.
- 17.9 Current projections indicate that working balances might end 2015/16 at around £4 million after appropriations for specific projects. This is significantly above the assessed minimum level.
- 17.10 The holding of excess balances presents the Council with opportunities to offset the upfront costs of change initiatives that will payback and deliver ongoing savings in later years.
- 17.11 One such example was the funding last year of the Website and E-Commerce project (Right Here, Right Now) leading to the recent website relaunch and the forthcoming automation of many of the Council’s existing processes. It is expected that this will deliver considerable efficiencies in the organisation through allowing customers to self serve and these efficiencies will contribute towards balancing the budgets in future years.
- 17.12 However, this project represents only a fraction of the wider organisational change required in order to ensure the Council is sustainable in the future, against a backdrop of falling funding.

## **18 Sustainable AVDC**

- 18.1 To address the wider challenge a fundamentally different approach to service delivery is required and the outline of this was presented to Cabinet in November.
- 18.2 This is a universal change to the whole management of the council, the most significant since the inception of the council in 1974. Moving from a silo organisation to an enterprise organisation is a fundamental change, and requires careful but significant investment
- 18.3 However the rewards are a sustainable organisation which without the investment and the transformation would fail at some point in the very near future. That is fail to deliver services that local people expect, rely on and value. It is not being over dramatic to state this and it is possible to point to recent examples of councils which have failed to do this and as a consequence are under severe financial pressure and in imminent danger of collapse.
- 18.4 The early recognition of the need to reform and then backing this up with on-going investment in the process of reform are the key elements of the organisation’s success thus far in dealing with the financial imperative.
- 18.5 As we are no more than halfway towards the final expected position, it is essential that the organisation continues to adequately invest in resolving this challenge in

order that there is a continual delivery of future savings so as to protect service delivery.

- 18.6 This proposed sustainability programme is built upon the founding elements of the NBM programme, and applies this to the entire organisation. In short its aim is 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 us with most of the other service providers that our residents use in their day to day life
  - Create greater value and income from more commercial operations to cross subsidise those areas of the council which can not cover their own costs
  - Focus on the customer at the heart of everything we do
- 18.7 In achieving these aims there are a number of changes to the way in which we are organised, and how our staff work. In summary:
- Overall a need for a much more commercial approach and understanding of our business
  - Remove the silo arrangement of staff, moving them into a more generic approach to fulfilling customers demands (without losing specialism where these are needed to meet customer demands)
  - Detach management responsibility from professional expertise – recognising that good management does not always come with specific technical expertise
  - Become more flexible in the way we work, and the way we serve customers, enable staff, process and structure to react to new demands from our communities
  - Wider spans of responsibility for managers, and a more corporate as opposed to departmental orientation
- 18.8 In the simplest form, AVDC need to be:
- Orientated around the customer, fulfilling their demands – delivering what customers want
  - Speedy in response to customer demands, similar to commercial organisations – when customers want it
  - Within a cost effective delivery model – at a cost customers will pay
- 18.9 To kick start and enable this change, the entire structural model of AVDC will be changing. This is in recognition of the above context and sets AVDC on a new footing to deal with the future challenges ahead. Conceptually, the new AVDC will do away with the historical departmental structure and to replace it will be a five part, more flexible and universal structure.
- 18.10 This will then enable a full business review of all current activities with a view to understanding and maximising income opportunities and rationalising the organisation of resources in the most efficient way so as to deliver the right products at the lowest cost.
- 18.11 To deliver change on this scale requires considerable resources on an invest to save basis, with core objective of delivering an organisation at the end of which is able to function, survive and even thrive within the funding resources available to it at that point in time.

- 18.12 To do this properly requires the secondment of a number of key individuals from within the organisation in order to work solely on the restructuring and review of processes. Until such time as their work delivers benefits, these individuals will require backfill and project management direction and support.
- 18.13 To achieve this, whilst ensuring the continued delivery of core services to residents, it will require the Council to invest and resource the exercise properly and so it is proposed that £600,000 of the Council's General Fund working balance is ring fenced for this specific purpose.
- 18.14 As the project is in the early stages of development a detailed budget requirement cannot reasonably be presented and so to ensure that the proper governance and accountability is maintained for the allocation of this funding it is recommended that the authority to determine the allocation and to commit this budget is delegated to the Cabinet member for Finance, Resources and Compliance. If agreed by Council, this will bring down the estimated level of Working Balances taken into 2017/18 to nearer £3½ million.
- 18.15 The projected position in respect of Working Balances is presented as Appendix C to this report.

## **19 Medium Term Financial Plan (2017/18 and After)**

- 19.1 As reported earlier, the numbers announced in the Grant consultation in December were fractionally different from those assumed in the Cabinet's initial budget proposals. However, the variance is sufficiently small in size that it can be accommodated by a small Use of Balances equal to £90,900 in 2016/17, in line with the strategy proposed.
- 19.2 The results of the consultation on the Provisional Settlement will not be published this year until after Council has met to agree its Budget for 2016/17. It is not unusual for the Final Grant numbers to vary from the Provisional numbers by a few thousand pounds as the Government refines its modelling in response to consultation feedback. Should this be the case, it is recommended that any differences in the final numbers are also adjusted through the Use of Balances line of the Budget.
- 19.3 This number will then be added to the savings requirements from 2017/18.
- 19.4 As mentioned earlier, beyond 2016/17 the Grant numbers show reductions in funding at a slower rate than had been predicted and this has an impact on the savings totals still to be found by the Council over the life of the Medium Term Financial Plan (assuming that the Council both accepts and qualifies for the Government's 4 year settlement offer).
- 19.5 Instead of a figure in excess of £7 million still to find, the revised figure is now just below £5 million. The detail is set out within the budget in Appendix B.
- 19.6 This still represents a significant challenge and doesn't alter either the imperative or the Council's proposed response to dealing with the savings in future years.

## **20 Implications for Council Tax Strategy**

- 20.1 The Budget Proposal agreed by Cabinet recommends increasing Council Tax by the maximum amount of 1.99%.



- 20.2 The Provisional Grant settlement confirmed the unchanged Council Tax referendum threshold for most authorities and the ending of the Freeze Grant strategy which it pursued in recent years. There is no longer any assumption that councils should try to hold Council Tax levels, and indeed the new Grant allocation methodology actively assumes councils will increase Council Tax by the maximum amounts allowed.
- 20.3 The Grant consultation also offered a higher potential increase for district councils whose current Council Tax is in the lower quartile. The additional increase equates to £5 or 2%, whichever is the greater.
- 20.4 The Government's measure of Council Tax includes Special Expenses charges for those councils which have them. The blended Council Tax for Aylesbury Vale District Council, including the Aylesbury Town Special Expense, is £148.12, whilst the lower quartile cut off is £144.59. As a consequence the Council narrowly misses out on the opportunity.
- 20.5 The Government's new total locally combined resources approach to allocating Grant reductions assumes that councils will increase resources by the maximum allowable for those given the extra Council Tax increased headroom. Reductions for these councils are calculated on the increased additional resources available to them, thereby effectively penalising them if they choose not to exercise that freedom. This represents a significant shift for the Government in terms of Council Tax strategy, from discouraging to effectively encouraging maximum increases.
- 20.6 Cabinet justified the proposed increase of 1.99% as a means of partially mitigating the reductions in Government Grant and thereby protecting services valued by residents and businesses in the Vale. The value of Government Grant lost in 2016/17 is nearly £18 for a Band D property, whilst a Council Tax increase of 1.99% recoups just £2.71 of this loss.
- 20.7 For this Council a Council Tax increase of 1.99% would generate £188,500 per annum and would represent an annual increase of £2.71 at Band D, equivalent to 5 pence per week.

## **21 Special Expenses**

- 21.1 Special Expenses are those services provided by the District Council which would normally be provided by a parish council. As such these services are charged as a special charge only to the residents who live in the area to which the services relate.
- 21.2 The budgets for Special Expenses have been reviewed as part of the normal budget development process to ensure that costs are correctly allocated.
- 21.3 Consequently, the budget requirement has been increased slightly but this can still be afforded within the current Special Expenses charge for residents of this area.
- 21.4 Therefore, after two years of reductions to the Special Expenses charge, followed by a Freeze last year, it is recommended that in 2016/17 the equivalent Band D charge is again frozen at the current level of £45.
- 21.5 The Special Expense Budget is set out within Appendix F.

## **22 Options Considered**

- 22.1 These are set out within the budget proposals and have been considered by Finance and Services Scrutiny Committee.

## **23 Reasons for Recommendations**

- 23.1 The Council is required to set a budget in advance of each financial year as the basis for determination of Council Tax and to be used as a key element of proper financial management of the Council's affairs.
- 23.2 The Council's Chief Financial Officer is required to submit an advisory statement for all members to take into account when considering the budget proposals.
- 23.3 Proper financial management and planning should extend beyond the next financial year and agreeing draft budgets for the subsequent four years is considered to be good management.

## **24 Resource Implications**

- 24.1 These are covered within the body of the report.

**Report of the Chief Financial Officer on the robustness of the estimates made for the purpose of the budget and tax setting calculations and the adequacy of the proposed financial reserves.**

**Budget Proposals**

I am satisfied that the process employed for identification, evaluation and inclusion of the items forming the budget proposal package has been properly conducted and has arrived at a set of robust estimates, given the limitations placed upon it resulting from the late announcement of the Government Grant Settlement numbers.

In arriving at this opinion I have taken due account of the following matters:

1. Budget Process

- a) Budget planning has been undertaken over an appropriate period of time and has allowed full understanding of the issues in an operational and financial context.
- b) Every effort has been made to include all Members in the financial planning process through the circulation of reports and associated information. Finance and Services Scrutiny has been invited to comment on initial proposals put forward for consideration by Cabinet and separately have had the opportunity to review the process for identifying savings. In addition, two Members' seminars dealing with budget planning issues were held. The views expressed during the scrutiny process have been fully considered by Cabinet.
- c) Where material changes are proposed to service delivery, these have been presented in separate reports, have been subject to scrutiny where required and the views of those impacted by those savings proposal have been taken into account.
- d) Consideration has been given to the Corporate priorities and resident views in formulating the budget proposals.
- e) The budget formulation process at officer level has been subject to on-going review which has tested the validity of pressures and deliverability of savings options in order to ensure that Members have been made aware of all aspects and implications of actions when formulating the budget proposals.

2. Key Assumptions

In formulating budget proposals it is necessary to make certain key assumptions; these are as follows:

- a) Government Grant - In theory, with 4 year Government Grant settlements now on the table, much of the assumptions and uncertainty surrounding potential future loss of Grant is removed. However, key elements of the former Grant regime remain subject to a consultation process and the outcomes of these could have significant impact on budget planning. The assumptions used in relation to these areas are therefore the indicative ones supplied within the Provisional Settlement numbers.
- b) Income from Business Rate Retention – The new Government Grant system introduced from the 1<sup>st</sup> April 2013 links councils' finances in part to the success of local businesses. Councils are likely to gain from a proportion of real business rate growth and lose a proportion of income associated with business rate losses. Although the Valuation Office has now stated that it has resolved 95% of the outstanding appeals within the system, the reality is that those with the highest values are still to be determined. The Council has provided against large reductions in respect of these appeals and the key assumption is that the actual settlements will be within the sums provided. Appeals aside, the budget proposal takes a balanced

view on the prospects for growth versus the risk of losses and assumes there is no new gain over that already built into the 2015/16 budget. To mitigate the risk of variations against the central assumption, an Equalisation Reserve has been established in order to manage the risk.

- c) Pay and Prices – the proposals include provision for inflation, this being the summary of a set of detailed individual calculations and assumptions. A figure has been built into the budget for pay, based upon the offer (not yet accepted) made to staff.
- d) The proposals reflect the best assessments of expected changes in demand, but there is always considerable uncertainty in this respect. Demand pressures associated with growth in the District are a factor in revenue budgets for next year.
- e) Fees and Charges – as part of the budget development process, Cabinet considered a consolidated list of the Council's fees and charges in order to ensure that all fees and charges get the same scrutiny and are subjected to equal rigour in review. Whilst it is now intended to review all fees annually at the same time, the level of individual fees will be further reviewed should the impact of any legislative change make this necessary.
- f) Council Tax Base and Collection Rate – the assumption of growth in the tax base reflects the recent average. The collection yield for Council Tax remains unchanged at 98.5%. Collection performance has dropped following the introduction of Localised Council Tax Support and so continues to be closely monitored in order to assess the ongoing impact.
- g) Interest on Investments – the outlook for interest rates remains depressed. The best estimate is that they will start to increase towards the end of 2016. However, any increase in the Base Rate will only be gradual. An assumption of probable interest rate yields has been made on this basis. The interest equalisation account is maintained in order to stabilise the sums available to the General Fund but this has been drawn upon heavily over the past few years because of the longer than expected suppression of Base Rates. This budget proposal allows for the ending of reliance on Interest Equalisation and the MTFP includes an amount which is consistent with likely receipts over that timeframe. The cash flow implications of the Capital Programme have been taken into account in calculating the interest earnings available for budget planning.
- h) Contingency Budgets – the financial pressures facing the Council requires budget planning to progress on the basis of absorbing cost pressures through efficiencies and savings. The contingency budget allows for sums to be released by consolidating contingency provisions held within individual services into a central pot and thereby reducing the overall provision held.
- i) New Homes Bonus Scheme – In the face of the consultation on proposed changes to the operation and funding for the scheme, this area represents one of considerable uncertainty. The budget assumes that even if allocations are significantly reduced beyond 2016/17 then there should still be sufficient to fund the contributions to the revenue budget set out within the Medium Term Financial Plan. However, in recognising that allocations are only likely to go down, no further sums have been taken into the revenue budget, thereby not increasing the Council's dependency on this funding stream.
- j) Revenue Implications of Capital Schemes - The revenue implications of those capital investments approved by Council have been reflected in the budget based around central case assumptions.
- k) Any debate around the future shape of local government in Buckinghamshire has been disregarded for the purposes of formulating the Medium Term Financial Plan.

### 3. Monitoring

- 3.1 The performance against budget for 2015-16 has been monitored throughout the year. The latest outturn assessment (an under spend in excess £1,000,000) has

been reflected in budget planning when estimating the level of balances available for 2016-17 and subsequent years.

- 3.2 Whilst a degree of volatility and pressure remains within the budgetary position this is largely masked by underspends resulting from the early delivery of significant budget savings for 2016/17.
- 3.3 The budgetary pressure facing the Council is widely understood and budget holders and managers are working hard towards delivering savings through efficiency and slimmer structures. The umbrella name for this initiative is the New Business Model but this process is evolving to a wider, whole Authority, change programme for which funding is sought in the budget report.
- 3.4 Within this framework, as opportunities present themselves, e.g. through natural staff turnover, they are being taken and budgetary savings are being realised. These savings are then being reflected in the base budget for future years and, as a consequence, will no longer feature as in-year under spending.
- 3.5 The Council undertakes regular monitoring and reports to members and officers.

#### 4. Financial Risks in the Budget Proposals

- 4.1 The budget always contains areas of uncertainty and whilst every effort is made to understand, recognise and manage risks, adequate financial provisions are held in the event they cannot be contained. This provision is in the form of Revenue Balances.
- 4.2 The Council has been presented with a balanced budget proposal for 2016/17, but despite this, the financial risks remaining are still significant and elevated.

#### Government Grants

- 4.3 The financial pressure created by the reduction in Grant represents the greatest and most profound financial challenge faced by the Council since its creation and how it reacts will shape the organisation, its services and the way in which it provides them for many years to come.
- 4.4 The Government has committed to reducing public sector spending until 2019/20 at which point it projects the national budget will be balanced. Built upon this planning assumption, the Chancellor has recently set out the proposed funding for local government for the remainder of this Parliament and, as expected, this includes deep cuts for local government.
- 4.5 Within this, there is a move towards protecting councils with responsibility for Adult Social Care and it is understood that a greater share of the residual resources will be directed towards supporting this service area in future.
- 4.6 In 2010 Government Grant accounted for 55% of the Council's net funding. By 2019/20 it is expected that Government Support (including Retained Business Rates) will be reduced to just £2.5 million. This will equate to a reduction of £11 million from a £22 million funding base (Council Tax and Business Rates).
- 4.7 The risk to the budget proposal is whether the Council can make the decisions necessary to balance the budget with considerably fewer resources than at present

and whether it can continue to provide statutory provision to residents in the face of this reduction.

- 4.8 In response to the future challenges the Council had developed a Business Transformation Programme (badged as the New Business Model) which was considering every service in a bottom up review to determine whether they are what residents want, whether they are delivered in the best way, whether they are delivered by the right people and whether they are being charged for appropriately.
- 4.9 This has proved invaluable thus far in identifying efficiencies and new income streams and this has enabled the Council to produce balanced budgets in each of the last 6 budget cycles. However, redesigning the same organisational structure can only produce a finite amount of efficiencies and in order to face the challenge of the next 4 years, the Council has conceived a new and (from a local government perspective) radical approach to restructuring the entire organisation around customers and commerciality. This approach is badged Commercial AVDC and members of the Council will be aware of its content through separate briefings and communications.
- 4.10 It is essential to the Medium Term Financial Plan and the Council's desire to protect those core services valued by the residents that the Commercial AVDC approach works. To ensure this, it is further essential that the Council prioritises and invests in this initiative appropriately. The Budget proposals include a requested allocation for this programme, which should be sufficient to prove the approach and demonstrate its worth as the central tenant of the budget strategy.
- 4.11 The recent Government provisional allocation announcement set targets for Grant reduction over the next 4 years which were marginally better than had been assumed and this eases the severity of the situation facing the Council, although it remains challenging. However, the Council is still waiting for the Government to confirm these numbers and, in the face of considerable challenge within local government, there remains a risk that the final numbers could change.
- 4.12 The other significant risk in this area is that the underpinning OBR forecasts for growth in the economy were wrong and as a consequence the Government needs to increase the size of Grant reductions to rebalance its forecasts. The 4 years certainty offer should help reduce this risk, but the potential impact of external events cannot be dismissed entirely.
- 4.13 It was thought by many that exiting Revenue Support Grant meant the ending of Grant for an authority and the removal of the Government's influence over them. We held a contrary view, that the Government would not easily relinquish financial control over councils, and with the introduction of negative grant in this settlement we were proved to be right.
- 4.14 This signals that the Government will continue to redistribute resources at a national level and this has implications for other elements of the Government's reform agenda, including the 100% retention of Business Rates.
- 4.15 Having higher working balances at the Council's disposal provides the cushion to enable it to manage the process of reducing the size of the budget, but they should only be used where there is sufficient confidence that the change programme will be successful.

- 4.16 It is forecast that the Council will be holding balances in excess of the minimum requirement at the end of 2015/16. With the backdrop of potential risks in the budget, the on-going and expected future challenges facing the Council and the potential need to provide some cushioning, maintaining higher balances against this considerable uncertainty represents a sensible and measured approach.

#### Business Rate Retention

- 4.17 The system of Business Rates has always proved to be an unpredictable and uncertain element of the Grant system and the Government's announcement that it intends to reform it, so that local government derives a greater share of its resourcing from business rates, will heighten the issues associated with this.
- 4.18 As a growing area, we generally welcome the opportunity to benefit from business rate growth and will watch and participate in the consultation process accordingly. However, whilst there are undoubtedly business rate growth opportunities within the Vale, the wider national economic position and unequal weighting of appeals within the system will continue to present significant risks.
- 4.19 The establishment of an Appeals Provision and the Business Rate Equalisation Reserve means that the Council can continue to manage its exposure to the risks inherent within this system and should provide short term financial security against them.
- 4.20 The Council's decision to participate in a Business Rate Pool in 2016/17 increases the Council exposure risk to business rates losses, as it now shares in the losses of the wider Pool membership. However, similarly, it benefits from upside gains. Entry into the Pool has been recommended following careful consideration, by the respective Chief Financial Officers, of the risks involved.

#### New Homes Bonus

- 4.21 The Council will receive £8.3 million of New Homes Bonus in 2016/17. This again makes its award the largest for any district in England and reflects the fact that it has witnessed more housing growth than other districts over the past 6 years.
- 4.22 However, the longevity of the Bonus has always been questioned as its redistributive effect is uneven across the Country and this makes it unpopular with the majority. As expected, the Government has now signalled its intention to review the scheme with the objective of removing £800 million, approximately 60%, of the scheme's cost.
- 4.23 In recognition of the belief that its future was uncertain, the Council adopted a policy where only a relatively small amount of the Bonus, judged to be equal to Grant loss associated with the introduction of NHB, is taken into its revenue budget. This assumed that if NHB were abolished then the resources allocated to it would be returned to the main Grant streams and consequently the Council would be no worse off.
- 4.24 The proposals contained within the consultation do not advocate the abolition of the scheme, but it will significantly reduce the benefits. Against expectations, the savings derived by the Government from the changes will not be returned to those Councils who originally contributed elements from their Grant streams, and instead the savings will be redistributed to those councils responsible for Adult Social Care services.

- 4.25 Whilst this is not as our strategy for New Homes Bonus expected, the limited reliance upon it and the likely continuation of the scheme at a reduced level means that the Medium Term Financial Plan assumptions are probably still safe. However, increasing revenue dependency would be unwise and the budgetary plan reflects this.
- 4.26 The principal risks to this strategy flow from the Government's proposed sharpening of the Bonus, which could lead, in some circumstances, to the Council not being eligible for any Bonus in some years.
- 4.27 The Council will participate in the Government's consultation exercise and vigorously argue that the Bonus should continue to benefit those contributing the most to the Government's policy objective by generating the highest levels of housing growth.
- 4.28 This risk is part of the continued justification for holding higher working balances at this time.

#### Interest Rate and Capital Investment Decisions

- 4.29 The Council ends its recent reliance on the Interest Equalisation Reserve as part of this budget proposal. Therefore, whilst low interest rates are considered to be unfavourable for the Council, any budgetary risk associated with them has now been removed.

#### Demand Growth

- 4.30 Housing growth within the Vale is a constant pressure on finances. In practice, cost pressures do not increase uniformly. Instead, these tend to step up when certain threshold points are hit.

#### Balances

- 4.31 In formulating this budget, the recommended level of General Fund revenue balance is set at £2.5 million. This level of reserve has been determined following the completion of the annual review exercise to update the budget risk register.
- 4.32 Balances above this level will be useful in delivering change and it is these that continue to give the confidence to say that the budget proposal is robust.
- 4.33 The Government and the media are currently focused, on what they perceive to be, the issue of councils hoarding balances. There remains a risk that the Government may try to raid what it perceives to be excess balances. However, it is considered that the Government would find it difficult to do this because of the complexity of local situations and circumstances, but it is possible that the Government may try to further influence councils to reduce balances.
- 4.34 The Council's balances have built up through the successful delivery of its efficiency and income generation agenda and these have proved invaluable in financing the next tranches of efficiency initiatives, such as the Web project and now Commercial AVDC.
- 4.35 Because of their 'one-off' nature they cannot be used as a substitute for either a savings or council tax strategy, but they are entirely appropriate for upfront and one



off investment. This represents a sensible and appropriate use of excess balances and it is expected that Cabinet will come forward with proposals in the near future for further applications.

## 5. Reserves and Provisions

- 5.1 The Council maintains a range of funds for specific purposes. These receive contributions from revenue and are used to defray expenditure, often on an irregular basis. This represents a prudent and essential part of financial planning and probity.
- 5.2 A complete review of the adequacy of reserves is carried out annually at an officer level (the results of which are reported to the Cabinet member) and bi-annually involving the Cabinet member.
- 5.3 At a headline level, Reserves are increasing and this is being blurred by the media into the Government debate on the level of balances.
- 5.4 It should be stated that the overall position is distorted through the holding of committed allocations in the New Homes Bonus and Commuted Sums reserves. If these are discounted then the overall position on the Council's reserves is reducing but they are still considered adequate in the majority of instances.
- 5.5 The exceptions are the Planning Reserves, where the costs of developing the new Vale of Aylesbury Local Plan and the cost of defending against speculative developments is placing strain upon resources. Excessive income from speculative major planning applications is being channelled into these reserves to bolster their positions and provide sufficient resources to enable the Council to complete the Local Plan work and to defend against appeals.
- 5.6 Similarly to the position on Balances, whilst it is entirely appropriate to hold Reserves, some of the forecast applications are further in the future than others and Cabinet are expected to shortly consider options for making these sums work harder for the Council in the intervening time.
- 5.7 In the mean time the balances are invested and provide valuable income for the benefit of taxpayers and the revenue budget via investment interest.

## 6. Council Tax

- 6.1 The Government has signalled an end to the policy of Council Tax Freezing and through the latest settlement numbers is actively encouraging councils to increase Council Tax by the maximum permissible.
- 6.2 This Council is still bound by the 2% maximum increase threshold and the benefit derived from such an increase is still far short of compensating for the impact created by Grant reduction.
- 6.3 The gap must therefore be filled by the Council through its strategic approach (Commercial AVDC) to balancing the Medium Term Financial Plan. The Council's continued provision of core statutory services is fundamentally dependent upon the success of this strategy.

- 6.4 Council Tax increases are not the solution in themselves, because they simply cannot match the scale of grant reduction, but still do have an important part to play in at least mitigating some of the impacts of inflation and Grant loss.
- 6.5 The preferred solution is in generating new income streams through the provision of services that residents are willing to pay extra for. The profit from these services will enable the Council to continue to provide those core Council services that cannot be monetised and for which neither residents, through council tax, and the Government, through Grant, are paying sufficient to enable the ongoing provision.

## 7. Medium Term Financial Strategy

- 7.1 Considerable effort at Member and officer level has been directed at establishing a budget framework that covers future years and that marries the need to identify efficiency savings and new income streams with corporate priorities. This work has delivered a balanced budget proposal for 2016/17.
- 7.2 Beyond 2016/17 there is now greater certainty on the scale of the challenge and a clear strategy exists for dealing with it. However, given the debate around local government structures, the future of local government funding and the extent of growth within the Vale the financial future for Aylesbury Vale remains as complex as ever.
- 7.3 The one issue which is not disputed is that continued Government savings will need to be made and that local government, as a whole, will continue to bear the brunt of these.
- 7.4 Historically, in facing uncertainty, this Council has always faced up to its financial challenges and created bold and innovative solutions. These are not without risks, and the Council's risk appetite has needed to change and expand in the face of the greater challenges facing the sector. I believe against the backdrop of preserving core services this strategy is both warranted and justified.
- 7.5 The Council's assumptions around negative grant have been proved true and therefore, the Council's strategy thus far has been vindicated. Having the confidence that its projections were correct, it is therefore now imperative that the Council stays focused on balancing its budget, as per the financial plan, and considers the difficult decisions, or investment opportunities, that will need to be taken.
- 7.6 As highlighted within this report, this will require significant business transformation and a radical rethinking about what services the Council provides and the way in which they are provided. It is evident, via the Commercial AVDC programme, that considerable importance is being attached to this at both member and senior officer level.
- 7.7 General Fund revenue reserves and balances have been determined with full consideration of the risks identified within this report. They are, therefore, deemed to represent a sufficient level of provision against the potential financial risk inherent within the Medium Term Financial Plan, provided the Council stays focused on delivering its targets.

Given the actions taken and the level of reserves and balances, I am of the opinion that the budget proposals for the General Fund have been properly prepared and are realistic in the

assumptions made. The proposals have been arrived at after taking appropriate officer advice and have the ownership of the Cabinet.

Andrew Small  
Director  
January 2016

## APPENDIX B1

### Medium Term Financial Plan – 2016/17 to 2020/21 – Final Proposals

Classification	2015/16 Base	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£
Business Transformation	416,800					
Economic Development Delivery	-602,900					
Environment & Waste	4,711,600					
Finance, Resources & Compliance	576,900					
Growth Strategy	1,779,800					
Leader	5,232,900					
Leisure, Communities & Civic Amnts	7,138,300					
Plus: Inflation, Savings / Growth	0	-606,300	856,000	842,000	840,000	860,000
<b>Less: Savings Still Required</b>	0	0	-1,607,700	-1,144,200	-1,040,300	-1,068,000
<b>Service Spend Total</b>	<b>19,253,400</b>	<b>18,647,100</b>	<b>17,895,400</b>	<b>17,593,200</b>	<b>17,392,900</b>	<b>17,184,900</b>
Contingency Items	371,500	216,200	216,200	216,200	216,200	216,200
Financing & Asset Charges	-1,346,400	-1,346,400	-1,346,400	-1,346,400	-1,346,400	-1,346,400
Transfers to / (from) Reserves	135,600	135,600	135,600	135,600	135,600	135,600
Investment Interest	-436,700	-436,700	-336,700	-236,700	-236,700	-236,700
Cost of Borrowing	2,191,000	2,365,700	2,357,700	2,312,700	2,266,700	2,266,700
AVE Interest	-1,806,000	-1,983,000	-1,955,000	-1,877,500	-1,849,000	-1,849,000
Use of Balances	0	-90,900	0	0	0	0
Plus: Special Expenses	-836,700	-846,600	-859,300	-880,800	-902,800	-925,400
New Homes Bonus	-1,178,000	-1,178,000	-1,178,000	-1,178,000	-1,178,000	-1,178,000
Retained Business Rates	-476,700	-476,700	-476,700	-476,700	-476,700	-476,700
Council Tax Freeze Grant	-82,100	0	0	0	0	0
Less: Parish LCTS Payment	141,300	70,600	0	0	0	0
<b>Funding Requirement</b>	<b>15,930,200</b>	<b>15,076,900</b>	<b>14,452,800</b>	<b>14,261,600</b>	<b>14,021,800</b>	<b>13,791,200</b>
Funded By						
Government Grant	-6,320,400	-5,214,600	-4,300,000	-3,809,500	-3,261,400	-2,713,300
Collection Fund Transfer	-351,500	-210,000	-210,000	-210,000	-210,000	-210,000
<b>AVDC Council Tax</b>	<b>9,258,300</b>	<b>9,652,300</b>	<b>9,942,800</b>	<b>10,242,100</b>	<b>10,550,400</b>	<b>10,867,900</b>
Council Tax Base	67,902	69,409	70,104	70,805	71,513	72,228
<b>Council Tax</b>	<b>£ 136.35</b>	<b>£ 139.06</b>	<b>£ 141.83</b>	<b>£ 144.65</b>	<b>£ 147.53</b>	<b>£ 150.47</b>
Percentage Increase	0.00%	1.99%	1.99%	1.99%	1.99%	1.99%



## APPENDIX C

### Budget Proposal - 2016/17 to 2020/21

#### GENERAL FUND REVENUE BALANCES

Classification	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£
Balance brought forward	3,765,000	4,191,000	3,500,100	3,500,100	3,500,100	3,500,100
Windfall Gains & Special Applications of Balances						
- HS2	0	0	0	0	0	0
- Website and E-Commerce Programme	-650,000	0	0	0	0	0
- Commercial AVDC – Change Project	0	-600,000	0	0	0	0
Restated Balance Position	3,115,000	3,591,000	3,500,100	3,500,100	3,500,100	3,500,100
Forecast (Overspend) / Underspend	1,076,000	0	0	0	0	0
Planned Contribution / (Application)	0	-90,900	0	0	0	0
Net (Use) of Balances	1,076,000	-90,900	0	0	0	0
Balance carried forward	4,191,000	3,500,100	3,500,100	3,500,100	3,500,100	3,500,100

## Savings, Efficiencies and Income as Part of 2016/17 Budget Planning

Portfolio	Service Area	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	Proposal	Impact Assessment
Leisure, Communities and Civic Amenities	Parking Services - Vacant posts	59,000					Currently vacant posts being removed from the establishment	
	Service Charges for Waitrose and Travelodge on Waterside South	100,000					Income for service charges on these sites which is currently not reflected in the budgets, whilst the expenditure is.	None
	Shopmobility Buckingham	12,500					Intended transfer to Buckingham Town Council	
	Exchange Street car park - income over budget	120,000					Reflecting the higher income currently being achieved from this site.	Impact of the County Council's car park opening next door is unknown as yet.
	Community Development Manager	60,000					Post Restructured out of the organisation in January 2015	
	Grants Unit - Admin Support	5,400						
	Community Engagement - HP Project	5,100					Reduction in Project Funding based upon previous actual spend	
	Housing Restructure	156,000					Savings achieved following the 2015 review of the Housing structure	
	Grant Funding of Voluntary Organisations	111,000					Reductions in funding for Voluntary Organisations recommended by the Informal Grants Panel as part of the regular review process. Subject to Cabinet Member decision.	
Growth Strategy	Planning- DM restructuring	54,600					Staffing restructuring following review of DM application teams and business support	savings arising from restructuring to ensure that DM is self financing, whilst ensuring a more streamlined, cost effective service which should still safeguard the service delivery for customers and residents
	Planning DM heritage restructuring	56,700					Staff savings achieved from Heritage team restructuring introduced July 2015	Savings arising from restructuring to provide a more streamlined, cost effective service which should still safeguard the service delivery for customers and residents
	Planning Fee Income	257,000					Reflecting actual levels of higher income currently being received in this area.	
	Pre Application Fee Income	20,000					Reflecting actual levels of higher income currently being received in this area.	
	Planning Performance Agreement Income	100,000					Reflecting actual levels of higher income currently being received in this area.	
Leader	Deputy Chief Executive	70,000					Saving achieved from not replacing the Deputy Chief Executive, less the cost of alternative arrangements to cover his functions.	
Environment and Waste	Senior Technical Officers	78,000					Vacant posts from April 2015 following restructuring of the Environmental Health Department	
	Recycling and Waste (Commercial Waste)	50,000					Move 20% of Trade waste customers to Trade recycling reducing disposal costs	

Portfolio	Service Area	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	Proposal	Impact Assessment
	Recycling and Waste	20,000					Income being achieved from Bulky Waste Sales	
	Recycling and Waste	120,000					Income being achieved from the sale of new bins to developers	
	Recycling and Waste	138,000	19,000	19,000	19,000		Additional income due to increase in garden waste charges partially offsetting the increased collection and disposal costs in the delivery of this service. Proposed £2 increase in 2016/17, followed by inflationary uplifts of £1 in subsequent years.	
	Recycling and Waste	100,000					Savings in the cost of Fuel because of low oil prices	
Finance, Resources and Compliance	Legal	90,000					Savings achieved from the restructuring of the Legal department and the procurement of legal services from HB Law	
	Recovery - Court Cost Income	100,000					Reflection of higher Court Cost income being received in excess of the budgeted sum	
	Payroll and Human Resources	70,000					Restructuring of Payroll and HR following the loss of the Dacorum payroll contract	
		1,953,300	19,000	19,000	19,000			



## Budget Pressures Identified in 2016/17 Budget Planning

Portfolio	Service Area	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	Pressure	Assessment
Leisure, Communities and Civic Amenities	Additional Night time Security Patrols in Car Parks	53,000					Provision of additional security patrols in and around car parks in the centre of Aylesbury to stop anti social behaviour	
Environment and Waste	Bucks County Council withdrawal from Inter Authority Agreement	200,000					Bucks CC termination of the Inter Authority Agreement over the sharing of savings accruing from avoided disposal costs associated with new waste and recycling collection arrangement introduced in 2012	
	Recycling and Waste (Garden Waste)	110,000					BCC change to tipping location for garden Waste Disposal	Increase fuel, vehicle, and staffing costs to the garden waste service
	Recycling and Waste	75,000	0	-75,000			BCC change to tipping location for Food Waste Disposal	After 2 years there will be an opportunity to reconfigure the way we collect waste due to vehicle lease expiry
	Recycling and Waste	400,000					Increase in Mainline Collection rounds to accommodate changes in BCC disposal location for EfW	Ongoing £400k increase to domestic Waste collection
	Recycling and Waste		200,000				District Population growth	Every four years there will be an increase in Mainline collection rounds due to district population growth (£200K per additional round) 2016/17 will see an increase in 1 round over and above changes to EFW and Bio Waste tipping locations.
	Recycling and Waste	200,000	0	200,000	0		Provision for loss of income from UPM. UPM have proposed a decrease in the amount paid per tonne for the remainder of the contract.	In 2017 procurement of the new recycling MRF will need to commence. Current markets show a cost (Gate fee) to AVDC of £30 per tonne. This would be the equivalent of minimum 500K cost to AVDC, base on existing tonnages.
	Recycling and Waste	186,000	0	0	0		Reduction in the Recycling credits @ 45 per tonne.	Based on 18,000 tonnes of recycle largely remaining static over the next 4 years due to light weighting of materials and potential service changes
Finance, Resources and Compliance	Payroll and Human Resources	70,000					Loss of the Dacorum Payroll contract	
	National Insurance	350,000					Single State Pensions changes will mean no Employer NI reductions from SERPS	

1,644,000	200,000	125,000	0	0
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**AYLESBURY SPECIAL EXPENSES - SUMMARY BUDGET 2016/17 (Appendix F)**

	<b>2014/15 Actual</b>	<b>2015/16 Original Budget</b>	<b>2015/16 Forecast</b>	<b>2016/17 Estimate Budget</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Aylesbury Market	29,671	8,800	4,500	9,700
<b>Parks and Recreation Grounds</b>				
Parks Administration	151,193	234,200	234,200	235,700
Alfred Rose Park	38,392	40,900	39,800	41,100
Bedgrove Park	58,018	62,300	60,300	62,700
Edinburgh Playing Fields	48,451	49,900	49,100	50,200
Meadowcroft Playing Fields	46,826	65,000	63,200	65,200
Vale Ground	29,633	14,700	12,600	14,900
Walton Court Sports Ground	36,663	44,000	41,400	44,200
Fairford Leys Sports Ground	68,377	82,700	81,100	83,100
	<b>477,553</b>	<b>593,700</b>	<b>581,700</b>	<b>597,100</b>
<b>Community Centres</b>				
Management	-	71,700	72,500	72,700
Bedgrove	(201,810)	54,000	57,600	54,600
Southcourt	28,377	48,600	58,100	49,200
Alfred Rose	24,107	47,800	48,300	48,400
Prebendal Farm	19,220	40,100	46,900	40,700
Quarrendon & Meadowcroft	53,480	41,600	39,200	41,600
Elmhurst	54,200	-	4,900	-
Haydon Hill	-	4,900	5,100	4,900
	<b>(22,425)</b>	<b>308,700</b>	<b>332,600</b>	<b>312,100</b>
Asset Rental Adjustment	(72,542)	(72,300)	(72,300)	(72,300)
Impairment Recharge	318,484	-	-	-
Repair and Maintenance Adjustment	-	-	-	-
<b>Total Net Expenditure</b>	<b>730,741</b>	<b>838,900</b>	<b>846,500</b>	<b>846,600</b>
<b>General Reserve</b>				
Balance Brought Forward	(471,407)	(455,207)	(518,666)	(477,366)
Expenditure in Year	730,741	838,900	846,500	846,600
Precept - Band D	(775,500)	(802,700)	(802,700)	(815,500)
	<b>(516,166)</b>	<b>(419,007)</b>	<b>(474,866)</b>	<b>(446,266)</b>
Interest on Balances	(2,500)	(2,200)	(2,500)	(2,300)
	<b>(518,666)</b>	<b>(421,207)</b>	<b>(477,366)</b>	<b>(448,566)</b>
Precept - Band D	£45.00	£45.00	£45.00	£45.00
Tax Base	17,233.49	17,838.50	17,838.50	18,122.50

Spring 2016

# AVDC – WORKING COMMERCIALLY FOR OUR COMMUNITIES



**Over the last six years, Aylesbury Vale District Council has saved around £14 million, whilst losing 60% of the government grant.**

This has been achieved not only through efficiencies but through creating new income streams. We've left the old council model behind and have become a commercial organisation, working to provide the services that our customers and communities really want.

**Below are some examples of the innovation which is helping us to thrive.**

## Aylesbury Vale broadband

We have used some of the New Homes Bonus money we received to create our own broadband company, to target the many areas of poor coverage within the Vale. Not only does this provide better connected communities but also generates a valuable return for the council, whilst our residents benefit from improved Internet access.

## Moving to the cloud

**We were the first council in the country to move all of our IT to Amazon's Web Cloud.**

This has allowed the council to become IT infrastructure free, with significant savings in staffing and hardware. More importantly, this has freed us of huge expenses such as high-cost software systems.

This single strategy has driven massive organisational and service change, delivering and enabling a further estimated £6 million of savings over the past five years.



## Commercial ventures

Work is underway on our two new commercial ventures Incgen and Limecart. These brands will use local suppliers to provide home and garden services and products, as well as business services to residents and companies within the Vale. Whilst still in the early stages, brand recognition is key and initial Limecart responses have been extremely positive with the number of contacts growing day by day. See [www.limecart.co.uk](http://www.limecart.co.uk) for further details.



## Transformation of planning

In recent years, the district has seen some of the fastest rates of housing growth in the country and over the next 20 years, under the Vale of Aylesbury Local Plan, is potentially set to grow by a further 31,000 homes (a 40% increase). In terms of applications, this has placed extreme demand on the planning team. Given that the cost of processing these applications is not covered by the government's statutory planning fees, we took the decision to concentrate on reducing costs. As a consequence, our planning team now operates entirely within the statutory fee of £172, with no subsidy required from the council tax payer.

## Town centre regeneration

Many councils have invested in property in recent years but we have invested in excess of £100 million in Aylesbury town centre at a time when the developers were reluctant. Our ambitions have delivered a landmark theatre, the town's first university, a Waitrose store and a hotel. Not only did this support the local economy, at a time when confidence was low, but it leveraged in greater resources for the local economy and will secure the future development of employer-led skills within the Vale. This investment has also generated a further £2.5 million of new revenue to the council. We're now working on moving onto the next phase.



# V A L E LOTTERY

In November 2015 we became the first council to run an online community lottery. Working in partnership with an external company, we're already selling more than 1,800 tickets a week and are currently on track to generate around £55,000 a year for good causes. This is our predicted total just a few months after launch. We expect the actual total to be much higher, as ticket sales increase. There has been a strong community interest in this initiative with more than 100 organisations now taking part.

We started Vale Lottery as an innovative source of alternative income, amidst concerns that reductions in funding would affect the council's existing grant service.

## Car pool for staff

Instead of our old car allowance system, we now have a fully flexible car pool in partnership with the national chain, Enterprise. This involved a culture shift, after years of a mileage claim system, but has resulted in better planning of journeys and enabled the council to supply a low emission fleet, saving the taxpayer £100,000 annually.

## Leisure centre investment



We invested council resources in a major refurbishment of Swan Pool, Buckingham, having awarded the management contract to national chain Everyone Active, in 2013. This contract has taken what was previously a management subsidy to a net betterment of £600,000 a year.



## Maximising office accommodation

On the back of moving our IT to the Cloud we rationalised our office accommodation, renting vacated space to the NHS and enabling us to build a dedicated conference facility at the Gateway. In 2015, this conference facility generated £150,000 in room hire alone.

## New website

Our redeveloped website receives around 60,000 visitors a month and being device responsive, means our customers can deal with us online, wherever and whenever they want to.

More than 13,000 residents have signed up to our Aylesbury Vale My Account, enabling them to access council services online. The web chat function on My Account, is proving so popular we are looking at using this on other parts of our website. This would make significant long-term savings and offer greater convenience for our customers.

# Sharing our ideas

In February 2016 we held a conference where we shared our learning and experiences with over 160 delegates from councils as far away as Cornwall and Cheshire. We also had key suppliers attending the event. Due to its success, we'll be hosting another event later this month.

## Here's just some of the feedback we received:

*"Very, very professional - a well executed event."*

*"I was impressed with the venue, the welcome and the facilities."*

*"AVDC clearly shows foresight, optimism and innovation - they seem to invest in their staff and have lots to be proud of."*



iESE Council of the Year 2015

To find out more email [commercialavdc@aylesburyvaledc.gov.uk](mailto:commercialavdc@aylesburyvaledc.gov.uk)