Cabinet
8 November 2016

BUDGET PLANNING 2017/18
Councillor Mordue
Cabinet Member for Finance, Resources and Compliance

1 Purpose

1.1 This report sets out the high level issues facing the Council when developing budget proposals for 2017/18 and in terms of updating its Medium Term Financial Plan (MTFP).

1.2 The report also sets out a proposed timetable in order to agree the budget and set the Council Tax prior to the end of February 2017

2 Recommendations/for decision

2.1 Cabinet is requested to consider the report and agree the approach proposed for developing the 2017/18 budget and the Medium Term Financial Plan.

1. Supporting information

2.1 The current Medium Term Financial Plan (MTFP) for 2017/18 was agreed by Council in February 2016. This predicted the need to identify £1.6 million of savings in order to balance the budget for 2017/18, based upon the information available at that time and a set of assumptions around key variables within the budget.

2.2 These key assumptions will be revisited and reviewed as part of the budget planning and preparation process for 2017/18 and for the 4 years thereafter, which make up the Medium Term Planning period.

2.3 Local Government, and most of the public sector, has been managing the consequences of the Government's balancing of the public sector funding equation over the last 6 years whilst at the same time managing the expectations of the Vale's residents.

2.4 With the recent change in Prime Minister and June's European Referendum Vote, there are indications that the Government may soften its stance on austerity. However, it is currently considered unlikely that this will have any material impact on the targets local government have already been set for the period up to 2019/20.

2.5 Whilst the Government works to determine its position on Brexit and the implications for austerity longer term, there is likely to be a hiatus. Some clarity is expected to materialise in the new Chancellor's Autumn Statement, due to be made on 23 November. However, the need to reduce Government Borrowing is unlikely to diminish significantly in the short term and so it seems equally unlikely that the Government will deviate from the 4 year spending settlement previously announced.

2.6 The tone of this budget setting and planning report is, therefore, still primarily focused around delivering the savings and new income generating targets identified last year.

2.7 This report identifies some of the key issues and areas which will need to be considered as part of the review and update process this year and sets out the timetable for scrutinising and agreeing the budget and Medium Term Financial Plan for the next 4 years.

3 Timetable

3.1 The proposed process broadly follows the same format as in previous years and is set out below.

Meeting Date	Meeting	Possible Reports
8h November	**Cabinet**	**Scene Setting Report**
16th November	Budget Seminar	Consideration of Scene Setting / Grant Changes
13th December	**Cabinet**	Initial Budget Plan / Strategy
	No Scrutiny of Budget Proposals by Economy or Environment	At this stage there are thought to be no operational service impacts arising from the proposals which require Scrutiny consideration
9th January	Finance Scrutiny	Consideration of Cabinet Report
10th January	**Cabinet**	**Budget Recommendation to Council**
19th January	2nd Budget Seminar	
1st February	**Council**	**Budget Setting**
22nd February	Council	Council Tax setting

3.2 The ongoing work of the Council's officers and its Cabinet members under the Commercialisation programme to deliver the efficiencies, savings and new income generation required in the Medium Term Financial Plan should again mean that the process can be condensed. This should be achievable, as any strategic choices relating to the level or means of service delivery have already been debated and scrutinised throughout the year and therefore are not required to be agreed as part of the budget development process.

3.3 The Commercialisation Programme is being delivered as a 4 year programme of co-ordinated works and services reviews and not as 4 separate annual decision making rounds which present members with multiple, equally unpalatable choices around service cuts. This minimises the amount of decision making required as part of this annual refresh and update to the Medium Term Plan.

4 The Government Grant Settlement and the 4 year offer

4.1 Members will recall that last year the Government offered a multi year financial settlement to those councils who chose to accept it. Along with the majority of councils, Aylesbury Vale District Council did choose to accept the offer for the certainty that this offered. The deadline for acceptance has now passed and the Council is waiting to formally hear whether it will qualify.

4.2 With some caveats around New Homes Bonus and the impact of the Business Rate Revaluation, due to be effected on 1st April 2017, the Council will know the level of Government support it can expect to receive in each of the years 2017/18, 2018/19 and 2019/20.

4.3 Whilst the reductions contained within these numbers still represent a significant challenge for this, and all councils, it does at least allow the Council to plan. This is preferable compared to the annual, invariably late, announcement from the Government in December which left little or no opportunity to react to unexpected variations.

4.4 The figures contained within the settlement are set out below;

	2016-17 £M	**2017-18 £M**	**2018-19 £M**	**2019-20 £M**
Settlement Funding Assessment	5.22	4.30	3.83	3.26
of which:				
Revenue Support Grant	1.57	0.58	0.00	0.00
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

4.5 The Medium Term Planning period, once extended as part of this planning process, will now run beyond 2019/20 and therefore, the end of the current parliament. The Government had set a target date for balancing its budget, and therefore the end of austerity, as 2019. What the Government's policy might be thereafter, particularly given the uncertainty surrounding Brexit and the softening of the date for balancing the budget, is uncertain. Whilst far in the future, some consideration will need to be given to this as part of budget planning.

5 New Homes Bonus (NHB)

5.1 The Government announced its intention to review New Homes Bonus (NHB) as part of last year's settlement and issued a consultation seeking views.

5.2 This Council responded before the deadline in March 2016. The Government has yet to publish a conclusion to this consultation and so councils are in the dark as to whether the scheme will continue into 2017/18.

5.3 Like many councils, Aylesbury Vale uses a proportion of the NHB received in its revenue budget to replace the Grant which the Government top-sliced in order to create this Bonus Scheme.

5.4 This amount is equal to £1.178 million, compared to the £8.3 million received in total during 2016/17.

5.5 The Council's use of NHB in its revenue budget was always deliberately minimised because of concerns over the scheme's longevity. The amount was therefore limited to that hypothecated as being equal to the Grant the Council lost when the scheme was created and therefore the amount it would receive in additional Grant if NHB was unwound.

5.6 Assuming any changes to the scheme only reduce the amount awarded, then there should be no immediate implications for the MTFP. If the Government decides to end the scheme immediately, what will become crucial is how it reintroduces the funding released back to local government.

5.7 It is currently expected that councils will not hear the outcome of the Government's review until the Autumn Statement.

6 Business Rates Revaluations, Pooling and 100% Business Rates Retention

6.1 From the 1st April 2013, Government Grant is now made up of two elements, Revenue Support Grant and Retained Business Rates. The system of Business Rate Retention allows councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus each council will be incentivised to promote economic expansion.

6.2 The Council's ability to gain from business rates growth is limited in practice, but it has still generated some gains over the 4 years the current system has been in place.

6.3 Appeals against the amount of business rates payable continue to present an issue. Thus far, these appeals have been successfully managed through an appeals provision. However, appeals against a number of the largest properties in the Vale are still unresolved and therefore present a potential risk. The current assumption is that these can be managed within the existing appeals provision but this will need to be kept under review.

6.4 All Business premises are revalued in a 5 year cycle. The current cycle has been extended to 7 years because of the introduction of the Business Rates Retention system in 2013 and the first review under this new system is now due to be implemented on 1st April 2017.

6.5 Whilst the Government manages the impact to ensure that the amount of Business Rates collected nationally remains the same, there are regionally variations and the Baseline Funding, which all councils receive, will need to be adjusted from the numbers in the earlier table so as to ensure that individual councils are not adversely affected by the introduction of the revaluation data. The Government is currently consulting on its proposed mechanism for doing this.

6.6 In 2016/17, Aylesbury Vale entered into a Business Rates Pooling arrangement with Bucks County Council, Bucks Fire and Rescue, Chiltern District Council and South Bucks District Council.

6.7 This arrangement, if successful, allows these councils to retain a greater proportion of Business Rates growth, by reducing the amount the Government would ordinarily capture.

6.8 Thus far, the arrangement appears to be working successfully but, because of the inherent volatility caused largely by appeals, whether the current gains will continue to the year end remains difficult to predict at this point.

6.9 The Pool will continue with its current membership into 2017/18, unless one of the councils chooses to dissolve the Pool and reconstitute it with a different membership.

6.10 The Government is currently consulting on proposals to allow local government to retain all of business rates collected nationally.

6.11 These proposals are potentially more challenging and further reaching than the changes introduced in 2013. Thus far, the Government has issued an initial high level consultation paper seeking views with which to shape a more detailed consultation later this year.

6.12 Once agreed, the Government intends to roll in the new system in either 2019/20 or 2020/21. Because of the uncertainties over the exact form of the system, it is unlikely that any significant assessment of the implications can be made in this budget development cycle.

7 Inflation, Pay and Brexit

7.1 The MTFP agreed in February made assumptions around Inflation and Pay based upon a gradual improvement in economic outlook. In practice, the relatively stable outlook for the economy has now been replaced by a period of uncertainty caused by the, largely, unpredictable implications of Brexit. Much of this will be determined by the Government's approach to the exit from the European Union and this will only be understood in time.

7.2 For now, it appears that the weakening Pound will push inflation higher in the short term, potentially hastening higher interest rates. However, the situation is volatile and provides an uncertain environment in which to plan. For now this will need to be kept under review, but it seems unlikely that any great clarity will emerge during the budget planning period. It therefore seems probable that this will become one of those issues that will necessitate a higher level of contingency, in the form of higher balances.

7.3 The Government's Apprenticeship Levy comes into effect from the 1st April 2017, which imposes a tariff on all larger employers based upon their total wage bill. The tariff can be mitigated by employing apprentices and the Council is actively engaging to ensure the best financial outcome, however, it seems likely that the Levy will result in some degree of higher cost which will need to be accommodated as part of budget planning.

8 Tri-annual Pension Revaluation

8.1 The Local Government Pension Scheme is a national scheme which all local government employees are entitled to join.

8.2 Periodically, (every 3 years), the Pension Fund in revalued in order to fully understand expected future calls on the pension fund, the amount likely to be contributed to it over time and its investment performance. This arrives at the annual amount each employer needs to contribute to the scheme to ensure it remains fully funded and able to meet all of its current and future obligations.

8.3 Currently the scheme is underfunded but the Council has a recovery plan in place to address this. Initial indications are that whilst the deficit has reduced since the last valuation a predicted deterioration in future investment performance might require the contribution rate to be reviewed. A clearer understanding of the position will be available in the next few weeks, once the Actuary has prepared the numbers for each individual organisation in the Bucks County Council scheme.

8.4 An opportunity exists, prior the end of March, to make a lump sum payment to the pension fund, thereby reducing the deficit. As the early introduction of funding enables the pension fund to generate its investment returns earlier, this can have a significant financially beneficial result.

8.5 As part of budget development process, options will be explored to use some of the Council's earmarked reserves, held for longer term obligations, to pay down a proportion of the pension fund deficit. The saving this creates, in terms of lower employer contributions, can then be used to replenish the earmarked reserves.

9 AVDC Commercial Interests

9.1 Members will be aware that the Council now has a number of commercial interest holdings, each at different stages of maturity.

9.2 In line with the overarching governance approach adopted by Council earlier this year, each of these interests will present an annual Business Plan for consideration and Scrutiny alongside the budget development process. The financial implications of the agreed Business Plans will be reflected in the developing budget.

10 Strategy for Balancing the Budget / Commercial AVDC

10.1 The Council's approach to balancing its finances over the Medium Term Financial Plan is contained within the Commercial AVDC Programme. Members will be aware of the content of this Programme through regular briefings, but in summary;

- The Commercial AVDC programme was initiated in late 2015 to manage the process of balancing the budget in the run up to the predicted total loss of government grant in 2020.
- Members will recall that the programme is adopting a two pronged approach of achieving savings by consolidation of services, use of Digital and reducing or eliminating duplication while at the same time generating income through commercial activities. The Commercial activities are developing to provide services that are -

    - Orientated around the customer, fulfilling their demands, delivering what the customer wants

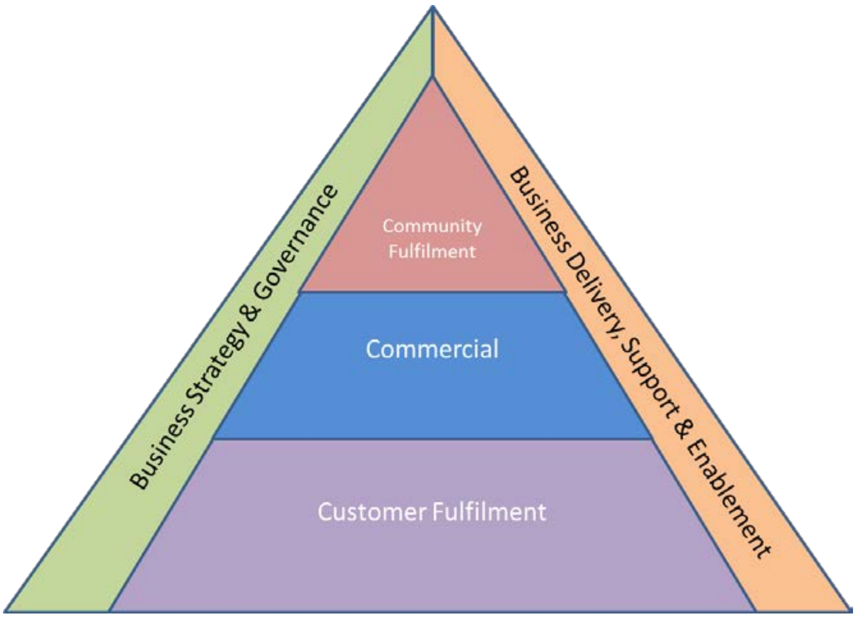
- Speedy response to customer demands, delivering services when the customers want it
- Delivering within a cost effective delivery model at a cost the customers will pay.

10.2 The overall programme is based on a risk management approach. While it is anticipated that the level of profit on the income generated by commercial activities will ultimately exceed the level of savings that can be made in the Council's core operation the actual future level of profits is, nevertheless, prediction and not yet bankable. While activities are underway to establish likely customer demands for commercial services and the best way to fulfil them, in parallel, the Council is undertaking a major internal change programme to deliver the savings which will ensure we have the breathing space to develop the required level of profit from the commercial ventures.

10.3 The programme has received widespread recognition outside the Council with requests for Officers and Members to present at conferences worldwide. In addition the programme, or elements of it, has won numerous awards. The Council is also promoting the work that it is doing in transforming itself through the "Surviving to Thriving" conferences. Two successful conferences were held at the Gateway earlier in the year with a third scheduled for 22nd of November.

10.4 To date the programme has achieved a number of key Milestones.

- "Lifting and Shifting" the organisation into the Sector Triangle model enabling savings to be realised through rationalisation and removal of duplication of effort as well as allowing us to focus on developing our Commercial Services.



- Development of a Commercial Behaviour Framework and working with external providers to develop an assessment approach to enable the Council to recruit staff on the basis of their knowledge and application of the Behaviours and to develop staff to enable them to operate in a more commercial way.

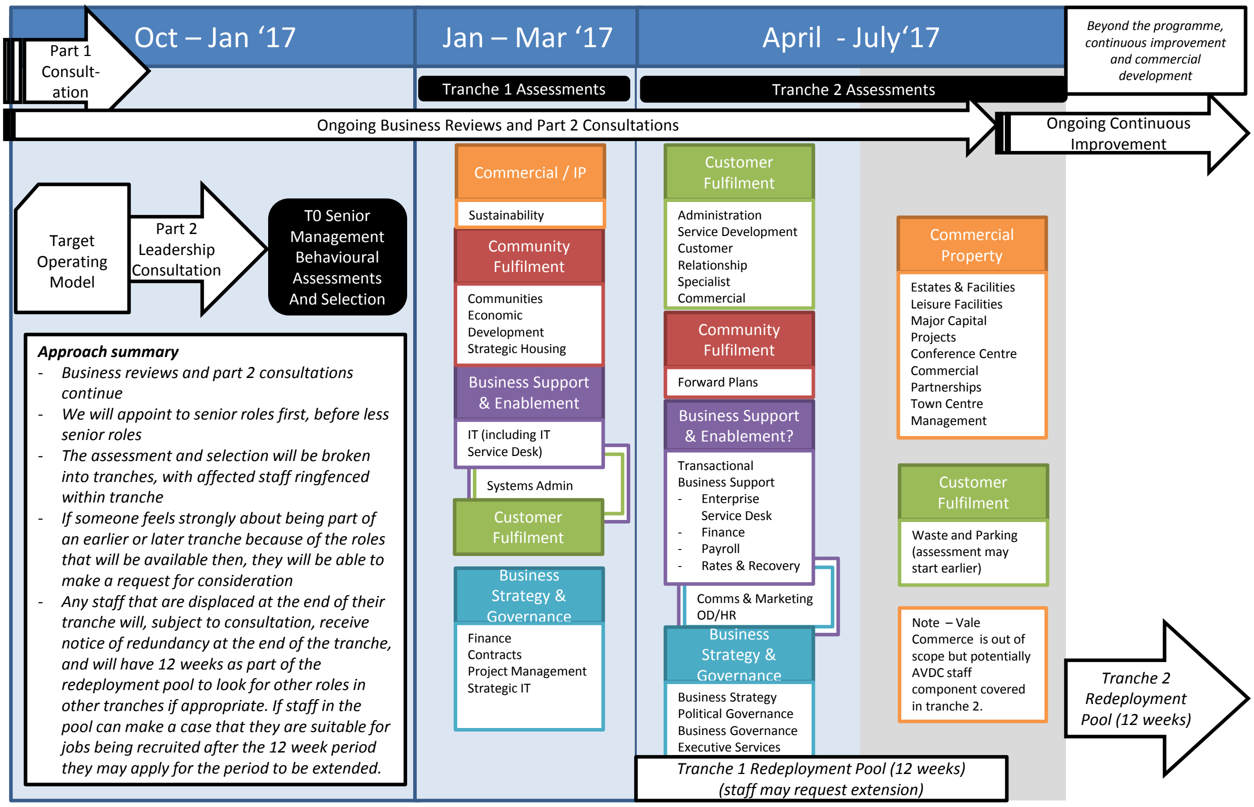
- Development of “Business Reviews” of services within the organisation looking at how they can be both more efficiently operated and more commercially focussed on customer needs.

- Working through a formal Collective Consultation process with Staff and Union representatives to develop a methodology to enable staff to be recruited into a new organisation structure.

10.5 Over the coming months staff will be recruited into the new organisation structure defined by the outcome of the Business Reviews. This process will be completed by July 2017 enabling the council to achieve savings ongoing.

10.6 The programme has an overall target to bridge the funding gap of £5.6m by 2020. To date for those services analysed savings of £4.2m have been identified with £1.8m of those savings forecast by managers for achievement in 2017/18. It is anticipated that the balance of the funding gap can, if necessary, be met following the review of the remaining services.

10.7 The schedule for the Business Reviews between now and July 2017 is shown below.



10.8 Much of the proposed savings are dependent on the implementation of the Council’s Digital Programme. The 5 year IT Cloud Strategy approved by Cabinet/Council in 2011/12 is now coming to an end having achieved its objectives. A new strategy to enable the council to offer better, more flexible services online is being developed for approval in early 2017.

10.9 The Commercial Services arm of the Commercial AVDC Programme consists of three key elements

- Creating innovative new services for our Residents and Businesses that they will value and be prepared to pay for. These services are being developed by AV Broadband and Vale Commerce

- Commercial Property Development and exploitation of our existing built assets.

- Developing the commercial opportunities offered by the packaging and selling of Council expertise and services, e.g. assisting other Councils to implement a Lottery, Payroll services, development of IT and Transformation Strategies.

10.10 Through the brand of Vale Commerce the focus is on delivering subscription based services to residents (Limecart) which is now at the stage of signing up the first residents to a pilot scheme and services to businesses (Incgen) which has also started to sign up businesses to those services. The emphasis is on getting an understanding of what the customers want before expanding to a wider market.

10.11 The development of commercial opportunities for selling Council services to other organisations is based on identifying which “packaged” services other organisations may need and basing the pricing strategy on the value of the overall package to the customer rather than simply trying to sell the services of staff to other organisations on a straight consultancy basis.

10.12 While it is too early to give hard predictions of the levels of income that may be generated by commercial activities early indications are good and it is encouraging that the strategy of offering high value services is receiving good feedback from potential customers across the board whether they be residents, businesses or other councils.

10.13 Further reports to Cabinet and Council on the progress of the Commercial AVDC programme will be provided as and when there are developments to be communicated.

11 Council Tax

11.1 The Government has exercised tight control over the level of Council Tax increases in each of the past 6 years in order to ensure that reductions in Government Grant were not simply replaced by increases in the burden on the Taxpayer.

11.2 In each of the last 6 years the Government has imposed a referendum requirement on any council wishing to increase its Council Tax by 2% or above. A Freeze Grant was also on offer in some years to incentivise councils to hold their Council Tax at the same level.

11.3 In all 6 years only one referendum has been held (by a Police authority) and this was heavily defeated. Given the costs of holding a referendum and difficultly in persuading a community to accept a higher increase, the threshold, in all but name, effectively represents a cap on Tax increases.

11.4 However, national policy has now shifted away from the desire to see Council Tax levels frozen to an acceptance of minimal tax increases. In fact, contained within last year’s 4 year settlement is an assumption that each council will increase its Council Tax by the maximum permissible amount, short of requiring a referendum.

11.5 The Government has assumed that each council will do this and has reduced the amount of Grant it intends to award each council by an equivalent amount. Therefore, any Council not increasing their Council Tax by the assumed amount will effectively be worse off than the Government intended.

11.6 The maximum allowable increase was also flexed last year for certain types of councils, with an additional 2%, above the existing 1.99% being made available to councils with responsibility for Adult Social Care. Further flexibility was also given to district councils, thereby acknowledging the huge disparity in individual levels of Council Tax and consequently the maximum gain achievable by a percentage increase.

11.7 For district councils, the maximum increase was changed to 1.99% or £5, whichever is the greater. Initially, the Government intended that this would apply only to those districts with lower quartile Council Tax levels, but this was subsequently changed in the Final Settlement to allow all districts to qualify. This change came too late in our own budget setting process for any account to be taken of this additional freedom.

11.8 It is important to note that in allocating grant reductions in the 4 year settlement, the Government has assumed that each qualifying council will take maximum advantage of this additional council tax increase threshold and has reduced grant by an additional amount equivalent to the extra Council Tax it expects councils to generate. Implicit within this, is a new Government assumption that more of the burden of funding council services will be transferred to the taxpayer.

11.9 Any council not wishing to pass this on to the taxpayer will consequently be worse off, as the Government will have reduced their Grant, assuming that they had.

11.10 In planning its budget for 2017/18 and beyond the Council will need to consider its position in relation to assumed Council Tax increases.

12 Parish Council Tax Increases

12.1 The one exception to Council Tax capping in recent years has been parish councils, who are still able to increase their Tax by any agreed amount. With the squeeze on county and district council funding there has been a gradual transfer of services to parish councils to take advantage of their freedoms. Parish Council Tax charges have risen well above inflation (on average) as a consequence with no proportionate reduction in the tax charged by those authorities transferring services and so the burden on the tax payer has increased, despite the Government’s attempts to limit this to a maximum of 2%.

12.2 The Government has been aware of this and threatened, in recent years, to apply referendum principles to some parish councils. If anything, this policy has had the opposite effect and many parishes have sought to increase their tax by even greater amounts to beat the imposition of controls.

12.3 This year, the Government has moved one step closer to imposing control and is consulting on extending referendum principles to some parishes in 2017/18. At face value this is only a partial solution and will not solve the problem the Government has identified.

12.4 We will keep parishes briefed as the consultation develops.

13 The Council Tax Base

13.1 The Tax Base is a measure of the number of household which are liable to pay Council Tax in an area in a given year. The Tax Base also takes into account the banding (size) of the property and the entitlement to discounts of the occupiers.

13.2 With the growth in the Vale over recent years the Tax Base has increased significantly above its historic growth trends, resulting in more Council Tax being payable. Whilst useful, in terms of the additional Council Tax generated, the reality is that the housing growth which has resulted in the Tax Base growth often contributes more cost, by way of demands for infrastructure and services, than the increased Council Tax income new residents will pay.

13.3 It is estimated that the combination of these factors will result in actual Tax Base growth at around 2.4% in 2017/18, compared to the existing 1% assumed in the Medium Term Financial Plan.

14 Capital Planning and the Impact of Spending Decisions

14.1 The revenue financing implications arising from the decision taken by Council at its last meeting to construct the new Depot Facility and replace the Waste Fleet will now need to be factored into the budget for 2017/18.

14.2 This, along with the impacts of any other new decisions, will need to be modelled alongside the position on capital resources.

14.3 The Capital Programme is to be considered in a broadly parallel process to that of revenue budget development and the revenue impacts of any funding decisions taken will need to be considered and built into revenue planning as part of the approval process.

14.4 Where the Council has had spare cash balances available, it has used these in lieu of borrowing. This reduces the need to take long term borrowing and also the Council gets the lender's return, thus it is financially advantageous to do so.

14.5 Utilising spare cash in this way is especially advantageous during periods of low interest rates. It is generally predicted that the Bank of England will begin to increase base rates during 2017, but this is still heavily dependent on external and global factors and any increase, when it comes, is likely to small and gradual.

14.6 The impact on investment income, the costs of borrowing and the returns or savings from investment decision must therefore all be considered together in order to understand the actual impacts of these decisions.

14.7 The final impact of completed and planned investment decisions are still being modelled and will be set out in more detail in subsequent reports.

15 Process for Resolving the Budget for 2017/18

15.1 As previously described it is hoped that the budget for 2017/18 can be resolved using the reorganisation and income generating strategies already set in train and without the need for a crude or simplistic cuts exercise. It is believed that this should be possible but, as highlighted, there are some key uncertainties which will need to be better understood through the development process.

15.2 It is therefore proposed to continue to work on refining the budget, making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

15.3 The Council has Working Balances in excess of its stated minimum and these are invaluable in allowing the Council to push forward with new invest to save initiatives or to flex savings targets from one year to the next in the event of unexpected funding pressures or new windfalls. Balances (adding to, or a use of) are therefore likely to form part of the strategy for concluding the balancing of the budget for 2017/18.

15.4 As identified, the focus remains on restructuring and new income generation and not upon lists of potential cuts for consideration. If a specific proposal requires a Cabinet decision or scrutiny consideration it will have already been taken through the democratic process at the appropriate time, or be separately identified for debate as part of the budget development process.

15.5 This will again make the budget process lighter touch and should avoid the need to take lists of potential service reductions through scrutiny committees.

15.6 An initial budget position will be presented to Cabinet in December and will be the subject of Scrutiny by Finance and Services Scrutiny Committee.

16 Options considered

16.1 This report sets out the current position in relation to budget planning and highlights the issues that will need to be resolved prior to agreeing a budget recommendation in January. As such there are no options to consider at this time.

17 Reasons for Recommendation

17.1 The report asks members to note the current position and asks them to agree the process to be adopted for concluding Budget Planning for 2017/18 and for revising the MTFP.

18 Resource implications

18.1 These are included within the report.

19 Response to Key Aims and Objectives

19.1 The Budget is the key lever in terms of delivering the Council's objectives, where they require additional investment or resources. The budget also articulates the costs of providing existing services and a balance has to be struck between the competing demands for resources. These issues will be explored further in subsequent reports on budget development.

Contact Officer Andrew Small Tel: 01296 585507
Background Documents