CABINET

13 DECEMBER 2016

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

1. MINUTES

RESOLVED –

That the Minutes of 8 November, 2016, be approved as a correct record.

2. BUDGET PLANNING 2017/18 AND BEYOND - INITIAL PROPOSALS

The report to Cabinet on 8 November, 2016, had explained the context for 2017/18 budget planning and had highlighted the difficulties created by a number of high value factors, the greatest of which being those associated with retained business rates, further reductions in Government Grant and new homes bonus. The report now before Members sought to bring together those elements that could be predicted with some certainty and proposed a strategy for dealing with those which were difficult to forecast.

Work would continue on refining the elements of uncertainty between this meeting and consideration of Cabinet's final budget proposals in January, 2017. This would be informed by any views that might be expressed by the Finance and Services Scrutiny Committee, the latest projected position on business rate growth and the initial proposed grant numbers, expected to be announced by the Government in mid to late December.

Because of the greater than usual number of uncertainties, it was appreciated that there would be a greater chance of amendments being required to the proposals to be submitted to Cabinet in January, 2017.

As had been set out in the November Cabinet report, the approach adopted for setting the budget for 2017/18 was similar to that followed in previous years and relied primarily on capitalising the savings delivered via reorganisation, income generation and restructuring during 2015/16 and 2016/17.

Since the prospect of greatly reduced Government Grant had first been mooted in 2010/11, the Council had devoted considerable effort and resources to identifying and delivering a smaller net budget requirement. This had been achieved by the Council reconsidering what it did, what it could do and who should pay for the services provided. This work had been badged "Commercial AVDC".

This had not specifically been about income generation but had instead involved a review of what customers want and need, who was best placed to provide those services, the most efficient and effective way of delivery, who should pay for the service and how much, and potentially for some services, whether they needed to be provided at all.

The work over the past twelve months in recognition of the forecast financial pressures had delivered significant savings, and many of these were already accruing in the current financial year. This work had been 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 represented a cornerstone of the budget development process.

The Council was currently undertaking a full structural review and assessment centre process in order to shape the future organisation. It was expected that the rationalisation of Council involving the removal of duplication, the breaking down of departmental silos and the reductions in unnecessary layers would deliver significant savings across the medium term planning period. However, as some of these revisions were currently subject to a statutory consultation process, it was not possible at this stage to indicate specifically what these savings represented.

In some areas it had been necessary to give an indicative view of the savings likely to accrue from the rationalisation, based upon the initial work undertaken. Because of the added uncertainty created by this approach, a higher contingent provision had been included in the budget proposals for 2017/18.
In addition to the major transformation exercises, a number of other savings had been generated as a result of service managers reviewing budgets for efficiencies and taking the chance to restructure as and when the opportunities presented themselves through natural staff turnover. A schedule of the significant savings to be incorporated into budget planning had been appended to the Cabinet report.

Some expected pressures relating to 2017/18 had been identified in the Medium Term Financial Plan (MTFP) back in February, 2016. The assumptions which had determined the sums to be provided for had been reconsidered and new pressures had been identified. The revised sums had also been appended to the Cabinet report.

A number of new spending pressures had materialised since February, the main one being an expected increase in the employers pension cost contribution. Based upon indicative numbers provided by the pension fund actuaries, it was believed that AVDC would be required to pay an additional 2%, which equated to £280,000. Whilst the overall scheme deficit had reduced over the previous three years, the expectations over future investment performance, taking into account the uncertainty surrounding the UK economy, had led the actuaries to conclude that the employer contribution would need to increase. At present the Council was still awaiting specific numbers and the financial model which calculated the impact of making lump sum contributions towards the scheme deficit.

There was a possibility that this sum could be reduced by the Council making a lump sum payment towards its overall deficit. The advance payment would be invested by the fund thereby generating income, which again reduced the deficit. However, as mentioned above, the impact of this could not be modelled until the Council had received the necessary information from the actuaries. The lump sum payment would be made from the new homes bonus reserve, which would be repaid annually from the savings made by not making the lower contribution into the pension fund. It was reported that for now, the budget proposals had been prepared ignoring this opportunity, but this would be modelled and presented to Cabinet as part of the final proposals report if a valid case could be made for doing so.

Other pressures included:-

- Increased costs relating to the HB Law legal contract where the demand on the service had been higher than anticipated in the areas of environmental health and property.

- An allowance for an additional costs following the strategic finance review.

- Payment of the new apprenticeship levy plus additional costs of hosting new IT servers and systems.

- The business rates paid on Council owned properties, particularly car parks.

The total service based pressures amounted to £1.483 million, of which £463,000 represented a general provision for inflation and pay. In respect of the latter, negotiations were yet to start. Members would be updated as the budget process progressed. There was also a potential pressure that had not been included for reasons of uncertainty. This related to the Council's asbestos liability on ex Council houses transferred to the Vale of Aylesbury Housing Trust (VAHT). VAHT was reaching the threshold where its liability ended and AVDC became responsible for the future costs of removal. Current indications were that the cost could potentially be as high as £300,000 per annum. Officers were currently working closely with VAHT to assess the position and to ensure that all expenditure since the date of transfer had been properly incurred and recorded. If, ultimately, there was a call on the Council, then the amount would be met from General Fund balances.

The revenue consequences of projects included within the Capital Programme (referred to elsewhere in these Minutes) were also appended to the Cabinet report on the budget proposals.

The Finance and Services Scrutiny Committee had at its meeting on 1 December, 2016, received a report on the Council's future IT strategy. When the strategy had been approved by Council, the revenue consequences would be fully scoped and built into the MTFP.

Members recalled that last year the Government had offered a multi year financial settlement to those councils who wished to accept it. Along with a majority of councils countrywide, AVDC had decided to accept the offer in view of the certainty it offered. (The Government had confirmed that the Council qualified for this offer).

The following table set out the elements of grant covered by the four year settlement. Currently, only the Revenue Support Grant element had been confirmed, as the baseline funding level related to the retained benefit the Council received from the business rates it collected:-

	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

The amount of business rates collectable from 1 April, 2016, was presently uncertain as the first national revaluation of business rates would come into effect on that date. The revaluation exercise was intended to be neutral across the country as a whole, and in order to achieve this, the Government would need to redistribute the gains and losses experienced at a local level. It would achieve this by adjusting the baseline funding level.

The Chancellor of the Exchequer's Autumn Statement was the precursor to the Government making detailed announcements in relation to local government funding, but the exact timing of its announcement of the finance settlement had yet to be made public. The Government had indicated that it intended to make the announcement before the end of November, but this was still awaited. It might well be that the detailed numbers would not be known until mid December and therefore, they could not be included within the initial budget plans.

However, the Government's intention was that the impact should be neutral and any reduction in the baseline should be matched by an increase in the business rates collectable. Therefore for the purposes of the draft budget proposals, it had been assumed that there was no impact, and the existing numbers had been used.
Whilst this assumption had been made, and in practice there was little else that could be assumed, there was complexity in the adjustment calculation which might still have an impact. Namely, the eligibility of businesses which had experienced a change in their rates payable, to mandatory relief from business rates. The assumption used in the initial budget proposals was that any impact would be neutral, but this was still an area of risk.

As with the Grant position, the business rates revaluation also clouded the position on the amount of gain the Council might expect to achieve from business rates growth within the Vale. However, the trends that sat below the revaluation were largely expected to continue through 2017/18.

The Council was gaining from its retained share of the business rates growth being achieved in the Vale and was on target to deliver the £476,000 figure included in the budget for 2016/17. Monitoring information available at the point of preparing the Cabinet report only covered the first seven months of the year, up to and including October, and much could still impact during the remaining five months, which might undermine the position. The situation would be kept under review as the detailed budget formulation process progressed, so that the final position could be informed by the latest information available at that time.

By way of mitigation, the Council had created a business rates revaluation reserve alongside the introduction of business rates retention, in order to smooth any significant year on year fluctuation caused by the volatility inherent in the business rates system. It was expected that this would enable the Council to achieve the budgeted gains from the business rates system in 2016/17 and 2017/18.

In 2016/17, Aylesbury Vale had entered into a business rates pooling arrangement with Bucks County Council, Bucks Fire and Rescue, Chiltern District Council and South Bucks District Council. This arrangement, if successful, allowed these authorities to retain a greater proportion of business rates growth, by reducing the amount the Government would ordinarily capture.

At the halfway point through the first year of operation, the gains from the pool across the whole pooling area amounted to approximately £1.4 million. It was expected that this would decrease (as was usually the case), but there should still be tangible gains for AVDC at the end of the year. For indicative purposes, if the current position was replicated at the year end, then the gain for AVDC would be slightly in excess of £300,000.

No account had been taken of any anticipated gain in the draft budget proposals, but given the uncertainty which existed in other areas, it was considered that not to do so represented a prudent position for now. The pool created would continue to operate until and if any of the organisations that were a party to it, notified the Government that they wished to exit from the arrangement. For 2017/18, all parties had agreed to continue on the same basis, subject to seeing the final Government numbers contained in the finance settlement.

Should any of the parties become unhappy with the position contained within the settlement, they would have a window of 28 days to withdraw (from the date of the settlement being published). Such a decision by any of the parties would result in the pool being disbanded.

The Council had been using its cash balances over the past few years in lieu of long term borrowing. This delivered an advantage over lending returns whilst base rates remained low. The financial advantage in terms of lower borrowing costs had been factored into the initial budget proposals.

As had been identified last year, the on-going low bank base rate was creating financial pressure. Since 2010, the shortfall in investment earnings, which had arisen from the record low base rate, had been smoothed via the use of the interest equalisation reserve. This reserve had been created from excess interest earnings in times when the base rate had been considerably higher than it was at present. The reserve had 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.

In August, the bank base rate had been cut to 0.25%, which had increased the pressure on investment returns. Interest rates were not expected to rise until 2018 at the earliest and it appeared that the Council would need to make use of the interest equalisation reserve again. Therefore as part of this year's budget planning exercise it was proposed to make a contribution of £80,000 from the reserve in 2017/18.

In last year's spending review the Chancellor of the Exchequer had signalled his intention to review the operation and distribution of new homes bonus (NHB). This had been followed up with the publication of a consultation paper. The consultation proposed both a reduction in the benefit by reducing the time it was payable and a sharpening of the scheme's focus. It was reported that there was some speculation within the local government community that the extent of the Government's likely changes could be more far reaching than had been suggested in the consultation document. The consultation had sought views on the following:-

- Limiting the benefit from six to four years, or even possibly to two 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.

The Government's stated intention was to reduce the amount of NHB payable. Consequently, as the District receiving the greatest amount of NHB, all of the proposals had a proportionately greater impact on this Council. The modelling accompanying the consultation projected allocations to this Council dropping away significantly from current levels.

Given the uncertainty surrounding its future, this Council had agreed not to increase the contribution from NHB into the revenue budget. The consultation had closed on 10 March, 2016, and as yet no formal response had been published by the Government. Because of its significance to many councils, it was expected that the Government would include its response within the finance settlement which was imminent.

Many councils relied heavily on NHB to balance their revenue budgets and so it was expected that the Government was unlikely to make any significant changes to the modelled allocations contained within the consultation document and the spending power measures included in last year's finance settlement data. However, as mentioned above the changes could be more far reaching than had been anticipated.

Reflecting this, the initial budget proposals contained unaltered assumptions in terms of NHB during the MTFP period. Once the finance settlement data had been released the assumptions would be re-tested and any changes required would be reported back to Cabinet (and Scrutiny, if timing permitted), as part of the consideration of final budget proposals.

Following the publication of the Government's consultation response, Cabinet would need to review the on-going policy in relation to how the Council used the amounts it received. For example, should the Council continue to take the same amounts into revenue and should it allocate the same proportion to Parishes? However, Cabinet could not reasonably do this until after the Government had published its final consultation response. The Parish scheme was currently being held in abeyance pending the outcome of the Government's review.

The AVE Business Plan for 2017/18 was currently being developed as referred to elsewhere in these Minutes. Dividend payments had been forecast within the developing central version of the AVE Business Plan for 2017/18 and these had been reflected in the initial budget proposals. The Plan also included a worst case scenario (excluding a dividend payment). This had been recognised as a budgetary risk and account had been taken of this also in determining the appropriate level of working balances to be held this year. As indicated later during the meeting, when considering the Business Plan, Members agreed some specific monitoring arrangements to ensure that the performance targets were being met, or if not, the reasons why.

The Government had yet to announce its policy on council tax increases (to be contained within the finance settlement), but it had been signalled that a threshold was still likely to apply at the same level as had been introduced for this year. The national policy had now shifted away from the desire to see council tax levels frozen, to an acceptance of minimal tax increases. Contained within last year's settlement was an assumption that each council would increase its council tax by the maximum permissible amount, short of requiring a referendum.

Consequently, the Government had reduced the amount of Grant it intended to award each council by an equivalent amount. Therefore any council not increasing their council tax by the assumed amount would, effectively be worse off than the Government intended. The maximum allowable increase had also been 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 had also been 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. For district councils, the maximum increase had been changed to 1.99% or £5, whichever was the greater.

It was noted that in allocating Grant reductions in the four year settlement, the Government had assumed that each qualifying council would take maximum advantage of this additional council tax increase threshold and had reduced Grant by an additional amount equivalent to the extra council tax it expected councils to generate. Implicit within this was a new Government assumption that more of the burden of funding council services would be transferred to the tax payer. Any council not wishing to pass this on to the taxpayer would consequently be worse off, as the Government would have reduced their Grant, assuming that they had.

Given this, the initial budget proposals included the assumed maximum that the £5 increase would be adopted in order to ensure that the Council was no worse off than the Government had assumed. A £5 increase at Band D would represent a 3.59% increase, equivalent to just under ten pence per week, and would increase the Band D council tax for Aylesbury Vale District Council to £144. 06.

Since the Government's austerity programme had begun the reduction in Government Grant support had been equal to £105 per resident. Against this backdrop, it would be unreasonable for residents to continue to expect to receive the same services without something changing, such as the level of tax paid or the ability of the Council to generate new income through other means.

Earmarked reserves represented 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 occurred. Earmarked reserves were an essential part of sound financial planning. As part of the budget development process for 2017/18, the Cabinet Member for Finance, Resources and Compliance was undertaking a full review of the Council's reserves and provisions.

With the national focus on the reduction in resources and continuing media interest, it was unfortunate that the Council's earmarked reserves position had shown a considerable leap, as this belied the reality of the situation that the Council was actually facing. The principal explanation behind the increase was the sizeable amounts of NHB still 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 was the ring fencing of these sums in reserves pending the delivery of schemes.

The vast majority of reserves held were for legitimate reasons and the balances were considered reasonable given a fair assessment of the budgetary pressures that they were being held against. The size of the reserves and the different time spans over which they would be required presented an opportunity to mitigate some of the increase in the Pension Fund contributions (referred to elsewhere in this Minute). This would be explored as soon as detailed modelling was made available.

The total balance held in reserves was expected to dip significantly over the next two years as the pressures against which they were being held materialised, and the infrastructure schemes for which the NHB funds were held, were delivered. Where the revenue budget was dependent on the use of funding from reserves, reliance was being reduced to the point where the budget was deemed to be sustainable.

Attached to the Cabinet report was a schedule of those fees and charges that had been reviewed as part of the budget process and which it was proposed to make changes.

The Council held general working balances as insurance against unexpected financial events. This included failure to generate expected income as well as financial claims against the Council. The current minimum assessed level of balances was £2.5 million which had been arrived at based upon a risk and probability assessment of potential budgetary factors during 2017/18.

Whilst the Government's four year settlement was a factor that might justify a reduction in this level of balances, it remained unchanged on the previous year, which was a reflection of the considerable uncertainty surrounding the impact of the Government's changes to the Grant numbers and the impacts of business rates revaluation, together with the numerous other issues identified within this Minute.

The September quarterly digest had projected a net contribution from balances of £238,000. This was made up of additional income/savings of £868,000, offset by a contribution to a new reserve of £1,106,000 to meet the costs of the commercial AVDC programme. Current indications were that working balances might end 2016/17 at around £3.6 million which was above the assessed minimum level.

The holding of excess balances presented the Council with opportunities to offset the upfront costs of change initiatives that would pay back and deliver on-going savings in later years. One such example was the funding during the current year of the commercial AVDC programme. It was expected that the change programme would continue to deliver efficiencies in the organisation. These efficiencies, some of which had already been included within the initial budget proposals, would contribute towards balancing the budgets in future years.

In accordance with good practice, the Council recorded and considered the significant risks it believed existed as an organisation which might hinder, or indeed prevent the Council, from delivering its statutory duties or core objectives. These risks were captured within the Council's risk register, together with mitigating factors. The risk register was reviewed regularly by the Audit Committee.

At its last meeting the Committee had commented on the value of this document and recommended that it be reviewed also by Cabinet as part of the budgetary process. Accordingly, the Cabinet report incorporated a copy of the document which had been included in the part of the confidential agenda. Members had noted the contents.

The Council's approach to balancing its finances over the MTFP was contained within the commercial AVDC programme. This could be summarised as follows:-

- Initiated in 2015 to manage the process of balancing the budget in the run up to a predicted total loss of Government Grant.

- The adoption of a two pronged approach of achieving savings by the consolidation of services, use of digital and reducing or eliminating duplication, whilst at the same time generating income through commercial activities.

- Commercial activities being orientated around the customer, fulfilling their demands and delivering services that they wanted; being speedy in response to customer demands; and cost effective service provision at a price customers were prepared to pay.

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

It was the delivery of the major internal change programme which made up the majority of the savings and efficiencies shown in the Appendices to the Cabinet report. Whilst the new income streams from the Council's new operations were expected to make significant contributions in later years, at this stage they were developing and it was not considered sufficiently certain to build these into future years' planning just yet.

The report to Cabinet in November had set out the rationale for the core assumptions used in the MTFP. In summary, the single biggest issue remained the on-going and severe reductions in Government Grant, and the uncertainty (notably around business rates and new homes bonus) as to how these would be applied to individual councils. The reality of continued public sector austerity through this Parliamentary term had been confirmed within the four year funding settlement. Further, the Chancellor had announced within his Autumn statement that he expected the austerity agenda to continue into the next Parliamentary term, thereby potentially spanning six more years.

The MTFP was predicated on reductions in Grant at the same rate as had been experienced over the last five years through to 20121.

Last year the Government had introduced the concept of negative Grant and it was expected that this would become a feature of local government financing over the Council's financial planning period. This was consistent with the historic planning assumption that the Council had been using over the past six years and the Council's strategy for balancing its budget had been predicated on this continuing. In this respect, the strategy around commercialism and efficiency was considered to remain the correct strategy to deal with the financial challenges facing the Council.

The additional freedom around council tax increases would help to soften the challenges marginally, although new pressures, such as those associated with inflation, were likely to absorb any respite offered by them. Because of the various factors identified in the Cabinet report, it was expected that there might be a need to make material changes in the final proposals which would be presented to Cabinet in January, 2017. Where uncertainty existed, this had been identified, along with the assumptions and any mitigation strategy which existed.

Cabinet's initial proposals would be considered by the Finance and Services Scrutiny Committee, when it was hoped that there might be some more information available.

Finally, it was reported that work was progressing to develop the Aylesbury Special Expenses budget. Initial indications were that a review of costs and services charged into this area were likely to result in the tax in Aylesbury remaining frozen at its current level.

RESOLVED –

That for the purposes of scrutiny approval be given to the following initial budget proposals for 2017/18 and the Medium Term Financial Plan:-

(a) That £2.2 million of savings as set out in paragraph 4.6 of the Cabinet report be taken into budget planning.

(b) That council tax be increased by an annual amount equal to £5 (3.59%) for a Band D property (equivalent to less than 10 pence per week) with effect from 1 April, 2017.

(c) That work be continued on the development of the budget proposals and for any net variance resulting to be either added to, or deducted from General Balances.

(d) That the revised list of fees and charges shown on the schedule attached to the Cabinet report be approved.

(e) That the Band D Aylesbury Special Expenses charge for 2017/18 be held at the current level.

3. CAPITAL PROGRAMME

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

- Major Projects – These being the largest and highest profile.

- Housing Schemes – These being the housing enabling and housing grant based schemes.

- Other Projects – These being all other schemes included in the Capital Programme.

The Programme was reviewed annually and consideration was given to a report setting out the latest position.

The UK economy was still settling down after the decision to leave the European Union and would continue to do so for the foreseeable future. Whilst the value of the pound had fallen, there had been a boost to exports, and with the recent cut in interest rates to a record low of 0.25%, the housing market was still taking time to react, which meant that the demand for land and its value might decrease.

House prices had fallen in July and August, 2016, which meant that the annual growth had fallen to 6.9%, the lowest level for more than a year. This slow down had affected the anticipated income from Right to Buy sales, which was one of the Council's major sources of capital income, to the point that actual receipts could be down on the level received over the past couple of years.

The number of house sale completions over the last couple of years had dropped below the 40 mark which was being achieved prior to 2014/15. Last year, the Vale of Aylesbury Housing Trust (VAHT) were anticipating house completions to be only 20, but the final figure for 2015/16 was 33, which had boosted the level of receipts to £2,309,000. For 2016/17, the number of applications was running at the same level as 2015/16 and so VAHT had increased their estimate for completions to 34, which would maintain the level of receipts AVDC could expect to receive.

During 2016/17, the final payments of the VAT shelter would be received, thus ending the ten year agreement put in place when the Council's housing stock had been transferred to VAHT. Whilst the amounts received had reduced over the years, they had been a valuable source of capital income.

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

- Share of house sale receipts from VAHT – These flowed from the stock transfer agreement and ran for 25 years from the transfer date. The number of sales had been forecast to be 34 for 2016/17, with the same number being forecast for 2017/18.

- Asset sales – These were sums released from the disposal of Council-owned assets, mainly land or property.

- Lottery, grants and section 106 payments – these related to external resources not associated with asset sales.

- Revenue contributions – Currently there were not expected to be any contributions from revenue to supplement existing capital resources other than a contribution from the new homes bonus fund.

The following table set out the available resources at the beginning of 2016/17 and the projected resources at the end of 2017/18, before any expenditure had been taken into account:-

	Current Resources April 2016 £'000s	**Resources Projection March 2018 £'000s**
Current Resources	**8,587**	**11,556**
Share of Right to Buy Receipts	2,000	2,000
Asset Sales	823	910
VAT Shelter	20	0
Lottery, Grants and Section 106	126	3,000
Revenue Contributions (NHB)	0	5,000
Total End of Year	**11,556**	**22,466**

The Council was at the stage where the generation of sizeable capital receipts in the future would no longer be possible as its asset base had been reduced to small land holdings and the Council's operational buildings i.e. offices, leisure facilities, public conveniences etc. This meant that the funding would have to be met from external sources, either through borrowing or third party contributions.

- **Major Projects**

  Included in the major projects section were the Waterside development, Pembroke Road depot, Silverstone racing circuit and the provision of a loan facility for a commercial property in Aylesbury. The Capital Programme included the latest forecast costs for these projects.

  At its meeting on 14 September, 2016, Council had received a report outlining the current position with the Waterside scheme. Work was now at the viability stage. There were a number of conditions that still needed to be signed off and the commercial outlet pre-lets needed to be confirmed, but it was hoped that work would start on site during early 2017.

  The expenditure and funding for the scheme had been built into the Capital Programme at last year's review of the Programme.

At its meeting on 26 October, 2016, Council had agreed to a scheme to develop the existing waste and recycling depot at Pembroke Road.

The total cost would be £9.2 million, of which £1.9 million would only be required if there was sufficient evidence of the demand and take up for the proposed expanded vehicle testing facilities. The business case was predicated on the cost of the scheme being met from borrowing, whilst recognising that the amount might be reduced if there were additional capital resources received during the year. (Borrowing was not usually earmarked for individual purposes but instead to cover any gap between spending and income).

- **Silverstone Racing Circuit**

At its meeting on 14 September, 2016, Council had agreed to be part of a joint funding arrangement for a new Silverstone Heritage Centre by contributing £2 million by way of a loan facility. Since that meeting, the promoters of the scheme had confirmed that they had secured £9.3 million Heritage Lottery Funding. This had been achieved on the basis that the surrounding councils and LEPs would provide a maximum loan facility of approximately equal value and this had been achieved.

Even though this was a loan, the advance counted as capital expenditure for accounting purposes and therefore had to be provided for within the Capital Programme. The Council's resources would be replenished by the repayments of principal.

- **Loan Facility for Commercial Property in Aylesbury**

The General Purposes Committee at its meeting on 21 November, 2016, had agreed to make a loan facility for £5.2 million available in connection with a commercial property in Aylesbury. The loan facility replaced a commercial offer and the terms would be similar to that offer and would be at a commercial rate of interest.

- **Housing Schemes**

The main element of funding within this category related to the Council's housing enabling function.

The Council continued to be successful in the delivery of affordable housing projects over the early period of the recession. However, housing associations were now having to review their business plans in the light of a change in the level of rents that they could charge. Consequently, new schemes had been delayed. The Housing Team would continue to work with the housing associations to deliver as many houses as possible within their resources. Other than carrying forward sums committed but unspent from previous years, it was not proposed that any change should be made to the funding position for these projects.

- **Other Projects**

The provision for these schemes remained unchanged, other than carrying forward unspent sums on those schemes that had been delayed, e.g. the Wendover Car Park extension.

Project managers were currently looking at the current Wendover Car Park configuration and reviewing the best and most cost effective way of undertaking the redevelopment involving the provision of additional parking bays. The size of the car park would remain the same. However, an examination of how to make the optimum use of the space available was still taking place. No indicative costs had yet been formulated and it was not therefore possible to assess the impact on the Capital Programme.

The Programme already included a provision to replace some of the refuse and recycling vehicle fleet. However, with the bulk of the fleet coming to the end of the current lease period, it had been agreed by Council that new vehicles should be purchased outright rather than leased. The purchase cost would be around £3.6 million and this amount had been included in the Capital Programme. If the cost could not be met from within existing resources it would be necessary to borrow the sum required.

In December, 2014, Council had agreed to a Compulsory Purchase Order in respect of a long term empty property in Aylesbury. The necessity to purchase was currently being reviewed as the status of the property might have changed. The funding allocated for this purpose would be carried forward and the need to spend this money would be reviewed when the investigations had been completed. It was hoped that the situation could be resolved before the start of the 2017/18 financial year.

RESOLVED –

That the updated Capital Programme be approved for the purposes of scrutiny.

4. AYLESBURY TOWN CENTRE PLAN

The Aylesbury Town Plan had been published in April, 2014. It represented the shared vision and commitment of partners to continue to improve the town centre, building upon the multi-million pound investment that had already been made. In summary, the vision was that Aylesbury:-

- Would be a high profile sub-regional centre for entertainment and the arts, which added a distinctive edge to its market town heritage.

- Would be a distinctive "best in class" modern market town which was attractive, sustainable, safe and accessible.

- Would provide a quality day and evening environment in terms of leisure, retail and food and drink, which would attract and bring together people of all ages and communities from within its catchment.

The Plan also set out the challenges facing the town centre and the guiding principles to steer its future development. AVDC, Aylesbury Town Council and Buckinghamshire County Council had developed the Plan, supported by a range of partners from the private and public sectors, who would not only be involved in helping to deliver the identified actions or improvements, but would also be mindful of the guiding principles when considering proposals for their own assets. A summary brochure of the full Plan had been widely distributed. The Plan continued to be an important document, particularly as at the time of publication, the existing but dated Local Plan (2004), was still being used to determine planning applications relating to the town centre.

The Town Centre Plan, whilst not a binding document in terms of planning policy, had been used very effectively as a reference point for comments (both positive and negative) made by, for example, the Aylesbury Town Partnership on planning applications. It had also been widely used both by AVDC and private sector partners to help promote the town centre and attract new operators and investors.

Cabinet was advised that in recent months, the opportunity had been taken to ensure that the Aylesbury town centre policies in the draft Vale of Aylesbury Local Plan (VALP) reflected the ethos of the Aylesbury Town Centre Plan. The guiding principles and vision had also been included within the VALP, aligning the Local Plan and the Town Centre Plan for the first time. In drafting the text for the VALP, the challenges, vision and guiding principles had all been reviewed. However, only minor changes had been made to the challenges to reflect the effects of the growth of the internet on traditional retail space.

The subsequent Aylesbury Town Centre Growth Opportunity Assessment Study carried out by the Retail Group to provide supporting evidence for the VALP, had confirmed that no other significant changes were needed. The detail of this Study, which also covered an update on the catchment area of Aylesbury town and the catchment's socio-economic profile, would be brought to a subsequent Cabinet meeting.

In January, 2017, AVDC planned to publish an update to the Town Centre Plan, identifying how the actions listed therein had been progressed. These covered all areas of the town centre and had each been categorised as one of the following:-

- Green – Work which could begin or be completed within current budgets and operational arrangements.

- Amber – Work which could be undertaken within current operational arrangements but revenue or capital funding was needed to deliver it.

- Red – Longer term aspirations which required significant operational and funding capacity.

Some 75 actions had been listed in the original Plan, broken down by areas of the town centre, with each having its own mini vision. In addition, a number of actions applied across the whole town centre. Progress had been made on 60 actions. Of the remaining 15, 13 actions continued to be classed as priorities with differing timescales, and 2 were no longer required because legislation had been passed enabling new powers to address these issues. A detailed commentary on the progress made against each of the actions was submitted, together with an excerpt from a consultation document on the Aylesbury Transport Strategy, detailing planned transport improvements which would be relevant to a number of important actions in the Aylesbury Town Centre Plan.

Progress had been made on a range of activities varying from small actions to larger long term schemes as follows:-

- Improvements to the market to include its appearance, the quality of products sold, the range of market types and making it easier for stall holders to pay their rents.

- Improvements to Walton Street through planting, with plans for more major changes as part of the conversion of the old County offices to apartments with associated pedestrian friendly space.

- Forming a stakeholder group to engage Kingsbury landlords and tenants in improving its appearance, making use of the links to the Roald Dahl childrens' gallery at the County Museum.

- Tackling parking issues in Kingsbury through the introduction of new parking controls.

- Protecting buildings in Church Street/Parsons Fee from damage by large vehicles by installing bollards.

- Bringing empty buildings such as AVDC's former High Street offices back into use.

- Installing new equipment in the Vale Park skate park

- The opening of the brand new University Campus Aylesbury Vale in the autumn of 2015 by the canal basin.

- Working with landowners and partners to plan the ambitious next step in the Waterside North development, co-ordinating parking plans and the conversion of existing buildings and construction of complementary new buildings. Work on phase 1 (restaurants, apartments and a public square) would commence in January, 2017).

- Making it easier for people with disabilities to use taxis through the "Fare4all" team in partnership with the Taxi Association and Bucks Disability Service.

- Increasing the scale and profile of town centre events to attract more people and encourage them to spend more time in the town. For example, the Roald Dahl Festival was now an all day event celebrating childrens' literature, and the Vale Park had hosted a bigger event to celebrate the lighting of the Heritage Flame at the start of the Rio Paralympics.

- Making use of the strong brands now present in the town centre including Waitrose, Nando's, Wagamania, Travelodge and the Gourmet Burger Kitchen, to attract interest from other food and beverage suppliers.

The Plan update also included some new actions suggested by Aylesbury town stakeholders. These had all been considered by the Aylesbury Town Centre Steering Group which comprised officer representation from AVDC, Aylesbury Town Council and Buckinghamshire County Council. Those which would appear in the updated Plan would be those which supported the guiding principles. The guiding principles were:-

- Principle 1 – Position the town correctly.

- Principle 2 – Be different, rather than a clone, but base it on reality.

- Principle 3 – Offer what the market is seeking to capitalise on the town's enviable retail catchment.

- Principle 4 – Encourage social interaction.

- Principle 5 – Build community spirit.

- Principle 6 – Take a connected, whole town approach.

- Principle 7 – Appeal to all different town centre users.

The format of the published update would be;-

- A full updated Aylesbury Town Centre Plan, including the vision for the future of the town centre, background information, a summary of achievements in recent years since the inception of the original Plan, guiding principles and Aylesbury's position. This document would also list all of the action points from the 2014 Plan, showing progress against each.

- A summary document (as before) with key points on the above, highlighting the important progress that had been made and the plans for the future, as well as developments that the Plan was responding to since its original publication.

As each action in the Town Centre Plan was progressed, the resources required would be taken into consideration. To date a variety of sources of finance had been used to progress actions. These had included Section 106 monies, the redeployment of the monies previously invested in the Visitor Information Centre and AVDC's Capital Programme. Any that could not be met within identified resources would be submitted for consideration with an accompanying business plan evidencing how the funding required could be obtained.

This matter had been considered by the Economy and Business Development Scrutiny Committee, whose Chairman attended the Cabinet meeting to elaborate upon the Committee's deliberations. Overall the Committee had supported the prosed update methodology.

Cabinet was impressed with the progress made and endorsed the approach to the update. During the course of discussions reference was made to the possibility of making Aylesbury a "wi-fi town", and officers were asked to explore how this vision might be funded and implemented.

RESOLVED –

That the progress on actions included in the Aylesbury Town Centre Plan since its original publication be noted and in particular which of those continued to be a priority, which of those would be carried forward into the updated Plan to be published in January, 2017, and which of those were no longer considered to be a priority.

5. AYLESBURY VALE ESTATES BUSINESS PLAN 2017/2018

The Council and the Akeman Partnership LLP (Akeman) had established Aylesbury Vale Estates (AVE) as a limited liability partnership in October, 2009, following a competitive procurement exercise, to manage, improve and develop the Council's commercial property portfolio, and provide an income stream to the Council. On completion of the agreement, the Council had sold the majority of its industrial and commercial estate to AVE LLP at market value.

The Partnership was governed by a formal Members' agreement and managed by a Partnership Board, on which the Council had three representatives. Akeman had produced a draft Partnership Business Plan as part of their bid which had been approved by the Council in June 2009. The final version of the Plan had formed part of the completion documentation approved in October, 2009. The Board met on a regular basis to review progress made with the Business Plan and to monitor the performance of the Asset Manager, Akeman Asset Management LLP.

The Members' Agreement required AVE to prepare a new Business Plan before the end of their accounting year (which now mirrored the Council's financial year), and to circulate this to the Council and Akeman for approval. The Agreement also provided that the Council and Akeman would use all reasonable endeavours to agree the Business Plan within 90 working days. The Business Plan was a critical document. The

Members' Agreement required the Business Plan to set out AVE's objectives for the life of the Partnership (i.e. 20 years), and the annual overarching objectives for each accounting period. In particular, the Plan had to include a statement to the effect that AVE's business should be operated with a view to producing the best risk adjusted profit obtainable, and to maximise the adjusted rate of return to the Council and Akeman. Subject to agreement between AVE, Akeman and the Council, the Plan was also expected to include the following matters, based upon a three year projection, where appropriate:-

- Strategic business objectives and targets.

- Gross and net rental income projections, including an assessment of operating costs, rental voids, rent arrears and any other losses and receipts.

- Annual portfolio valuation prepared to a standard acceptable for AVDC financial reporting purposes.

- Confirmation that the financial covenants regarding loan to value and interest cover were being maintained.

- Projections of estimated receivable rent and confirmation of compliance with maintaining portfolio income levels.

- Proposals for working capital budget, any new capital investments and re-investments plus any distributions to partners.

- Performance against key indicators and targets and levels of achievement.

Once approved, the Business Plan provided the framework within which the AVE Board should work, similar in effect to the Budget and Policy Framework set by the Council for Cabinet. Accordingly, if the Board wished to pursue any substantive action which was not provided for in the Business Plan, they had to obtain specific authority from the Council (either by Cabinet itself, or via a Cabinet Member Decision) and Akeman.
The draft 2017/18 Business Plan was submitted, as set out in full in the confidential section of the Cabinet agenda. In the past, AVDC had retrospectively approved the Business Plan, but the timetable for the 2017/18 Plan had been brought forward to enable any forecast distributions or other financial implications for AVDC to be reflected in the 2017/18 budget (which indeed they had). References to performance or issues occurring were therefore only up to the end of September, 2016.

The confidential Appendix included the cash flow for AVE and the Hale Leys Business cash flow position.

The Business Plan necessarily included a range of assumptions about the future behaviour of tenants and the wider market. Some of these might come to pass and some might not. Section three of the Financial and Investment Strategy included a "what if" sensitivity analysis which had been undertaken to assess the impact of both an upside and downside situation on each of the key assumptions in the cash flow based on the 2019/20 financial position.

Over the last twelve months the following progress had been made:-

Distributions

- During the 2016/17 financial year, a distribution was made as a result of the Pembroke Road sale to AVDC and a further smaller distribution had been forecast to occur before the end of the financial year. However, before authorising this further distribution, the Board would need to be confident that sufficient progress had been made on the major projects included in this Business Plan.

Assets/Developments

- Signed contracts to develop a turnkey office building for the Kennel Club headquarters on the Gateway site resulting in a profitable land sale and developer's profit. So far the project was ahead of budget and would be delivered to the Kennel Club on time.

- The phase 1 Gateway affordable housing development by VAHT was still not completed, but work was again progressing after a change of contractors.

- Commissioned roofing works at Edison Road and Bessemer Crescent to improve the stock for existing tenants and reduce vacancies.

- 26 – 28 High Street, Winslow – A full planning application for a change of use was being progressed.

Key Performance Targets

- The vacancy across the whole portfolio as at 30 September, 2016, was 11.8% down from 13.3% at the end of the previous financial year. The portfolio remained on track to hit its 2016/17 financial year end vacancy target of 9.2%.

- The total return of the portfolio over the twelve months to 31 March, 2016, was 8%. Since inception, investors had received an annual return of 14.7% (assuming set up costs were spread evenly over the period of the joint venture).

- Total budgeted portfolio income for the financial year ending 31 March, 2016, represented a variance to budget of less than 1% which was well within the KPT limit of +/- 10%. For the first six months of 2016/17, actual income received had been ahead of budget.

- Bad debts written off in the 2015/16 financial year, equated to 1.0% of total rent collected against the KPT limit of 0.2%.

- The three month collection rate for the portfolio for the September, 2016 quarter had been 95%. This had outperformed the three month KPI of 90% but had fallen slightly short of hitting the twelve month KPT of 100%.

- The loan to value as at 31 March, 2016, had been 72.19%, below the maximum limit of 75%.

Looking Forward

- There was an opportunity to dispose of non-income producing sites and together with income expected from other asset management projects, to use the receipts to help grow the portfolio and increase revenue flows through re-investment. The three year Business Plan had been designed to take the portfolio to a position where these revenue flows could cover all running costs, asset arrangements and amortisation, and leave a surplus for distribution to members on an on-going basis.

- The proposal was to re-invest AVE capital alongside new commercial debt to secure new assets. All new investment had been assumed to deliver a net 8% income return on equity.

- The delivery of an on-going annual distribution of £400,000 to members was one of the key aims of the Business Plan. The quantum and timing of distributions in the short term might need to be flexible to achieve the long term aim of a robust positive net income stream and sustained annual distribution.

- Target forecast vacancy for the portfolio at the end of 2017/18 financial year was 8.1%, which was a significant improvement on the vacancy position as at 30 September, 2016 of 11.8%. Akeman was confident this forecast reduction could be achieved as the portfolio benefitted from the asset improvements made to the portfolio during the 2016/17 financial year. The Rabans Lane area now had the best broadband in the town, better CCTV security and a vibrant tenant line up whilst still having the lowest estate charge and competitive rental levels.

- The key focus of Hale Leys over the coming three years was to achieve 100% occupancy with longer term leases and strategic lease renewals, and to continue to increase the rental income and reduce debt write-off.

- The financial target was to generate enough surplus annual income which, after all costs and amortisation, could be used to cover distributions to members. The AVE Board would review other cash needs within the portfolio and set distributions each year at a level that did not hamper portfolio performance.

- As part of an on-going review of expenditure, fees to external consultants would be benchmarked against other market providers.

- Section seven of the Business Plan set out the key performance indicators and targets for AVE. The indicators were a fixed part of the Members' Agreement and were not subject to amendment. However, it was possible to add/amend the targets and a review of the current targets would take place. Once finalised, they would be attached to the Plan as an addendum.

It was reported that a number of important asset management initiatives were now underway, including the refurbishment of parts of the Rabans Lane multi-let industrial estate. These works were essential both to retain tenants and to compete with other unit providers so that all units could in time be fully let at market rents. The impact of the work had already been felt with demand for units increasing. Other improvements to the site, e.g. broadband and CCTV, had been exceptionally well received.

Two other schemes, namely the new headquarters for the Kennel Club and the VAHT affordable housing scheme – both at the Gateway – were progressing and when completed, would result in income receipts to AVE. There was however, some outgoing expenditure related to these sites in the form of Section 106 payments.

The question of whether a distribution to members would be made as proposed in the 2016/17 Business Plan (over and above the one expected as a result of the sale of Pembroke Road) was not yet clear. It would be disappointing if this did not materialise, as generating an annual distribution for members was one of the key objectives when the Partnership had been formed. However, operating costs, interest, amortisation and the costs of completing the improvement works, would all have to be covered first.

Whilst there were many positive points, the future financial prospects were now heavily dependent on the sale and re-investment of receipts and new income producing assets.

This dependency and the lack of liquidity in the partnership did give cause for concern and the risks had been reflected in the downside case in the Business Plan. Should this materialise, the Council's prospect of receiving a return would be adversely affected.

The Economy and Business Development Scrutiny Committee had received a similar report to that submitted to Cabinet and the Committee Chairman attended to elaborate upon the Committee's discussions. In summary the Committee had made the following principal points:-

- The Committee had expressed concern that re-investment seemed to be slow and that this issue came up year after year.

- Concerns had also been expressed about sales not being realised and the loss of rental income from vacant properties.

- The Committee had been of the view that perhaps the Business Plan was too reliant on specific future developments and sales taking place.

- The Committee had felt that progress made with the Business Plan should be monitored more regularly.

However, on balance, the Scrutiny Committee had been of the view that it was in the Council's best interests to approve the draft Business Plan.

Representatives of the Board attended the meeting and were tested by Members on a number of the assumptions made in the draft Business Plan for 2017/18 and indeed also those made previously in relation to the 2016/17 Plan.

RESOLVED –

(1) That the AVE Business Plan for 2017/18 be endorsed and that progress made against the key performance indicators be reviewed in six months time.

(2) That in conjunction with the above report and at the conclusion of the finalisation/audit of AVE's accounts, a commentary be submitted that would enable Cabinet to compare performance made with the 2016/17 Business Plan against the key performance targets for that financial year.

6. EXCLUSION OF THE PUBLIC

RESOLVED –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the Paragraphs indicated in Part 1 of Schedule 12A of the Act:-

Budget Planning 2017/18 and beyond – Risk Management Plan. (Category – Paragraph 3)

AVE Business Plan for 2017/2018.(Category – Paragraph 3)

The public interest in maintaining the exemptions outweighed the public interest in disclosing the information because the reports contained information relating to the financial or business affairs of organisations (including the Authority holding that in formation) and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals/transactions.

7. BUDGET PLANNING 2017/18 AND BEYOND - INITIAL PROPOSALS

In determining the draft budget proposals for 2017/18 and beyond, consideration was given to the Council's Risk register.

8. AYLESBURY VALE ESTATES BUSINESS PLAN 2017/2018

In reaching the decision in relation to AVE's Business Plan for 2017/18, Cabinet received and considered a full copy of the Plan.