Cabinet

8 NOVEMBER 2017

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

APOLOGY: Councillor S Bowles

1. MINUTES

RESOLVED –

That the Minutes of 10 October be approved as a correct record.

2. CONNECTED KNOWLEDGE UPDATE

Cabinet received an update (in the form of a visual presentation) on the progress made with the implementation of the Connected Knowledge strategy, which was being introduced on a phased approach. The strategy, which would be implemented over the period 2017 to 2022 and had been approved by Council in February, 2017. The strategy would enable AVDC to continue to be at the vanguard on innovative digital solutions to service delivery, leading to savings for the customer and the generation of income through consultancy services to other councils. Members were impressed with the reputation being gained by the Council in the implementation of digital technology designed to improve the customer experience and enable a more efficient service to be provided.

It was noted that further reports on the funding requirements for future phases would be submitted as part of the budget setting process.

RESOLVED –

That the Council's commitment to the strategy be affirmed.

3. REVOCATION OF THE TRING ROAD AIR QUALITY MANAGEMENT AREA (AQMA)

This item was withdrawn to enable the Council's technical officers to consider recent information received from DEFRA. It was noted that if appropriate, a further report would be submitted to a subsequent Cabinet meeting.

4. BUDGET PLANNING 2018-19

Cabinet considered a report setting out the high level issues facing the Council in developing budget proposals for 2018/2019 and in updating the Medium Term Financial Plan (MTFP).

The current MFTP for 2018/19 had been agreed by Council in February, 2017. This had predicted the need to identify £1.4 million of savings in order to balance the budget for 2018/19, based upon the information available at that time and a set of assumptions around key variables within the budget. These assumptions would be revisited and reviewed as part of the budget planning for 2018/19 and the following four years which made up the MTFP.

Local government, and most of the public sector, had been managing the consequences of the Government's balancing of the public sector funding equation over the last seven years, whilst at the same time managing the expectations of residents. With the recent General Election and the ongoing uncertainty surrounding Brexit and its impact, there had been some softening of the Government's stance on austerity. As a consequence, the Government's long term targets for balancing the budget had been extended and there had been some new funding for some nationally high profile issues.

However, it was still considered unlikely that this would have any material impact on the targets which had been set for local government for the period up to 2019/20. All indications were that austerity would continue for this sector well beyond this timeframe.

The Chancellor of the Exchequer had hinted at a landmark budget with a focus on issues such as housing growth. The Autumn budget was due to be announced on 22 November and a re-prioritising of the Government's agenda might have far reaching implications for local government. However, the Government appeared committed to the four year settlement, so core funding seemed likely to be unaffected, but there remained many other mechanisms by which local government could be affected. The tone of the report now before Cabinet was therefore still primarily focused around the delivery of efficiency savings and new income generation, as identified last year, but with an eye to the wider budgetary risks potentially facing the Council.

The report identified some of the key issues and areas that would need to be considered as part of the review and update process and set out the timetable for scrutinising and agreeing the budget and the MTFP. The proposed timetable broadly followed the same format as in previous years and this was summarised in the report.

The ongoing work of officers and Cabinet Members under the wider commercial AVDC programme meant that the process could be condensed. This should be achievable, as any strategic choices relating to the level or means of service delivery had already been debated and scrutinised throughout the year. The restructuring programme recently completed had been the single largest facet of the commercial AVDC programme during the last 12 months.

The Commercialisation programme was being delivered as an ongoing four year programme of co-ordinated works and service reviews and not as four separate annual decision making rounds. Through this approach Members would avoid being presented with multiple, unpalatable service cut choices. This also minimised the amount of decision making required as part of the annual refresh and update of the MTFP.

Government funding and the Wider landscape

The 2015 spending review had outlined a multi-year settlement offer for local authorities, which 97% of councils had accepted. The settlement for 2018/19 represented the third year. The figures contained in the settlement were as follows:-

	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

In 2018/19 the Council would effectively receive no Government Revenue Support Grant. However, it would continue to receive funding from other Government allocations and was allowed to retain the business rates baseline number set out above.

The Government was currently consulting on elements of the wider settlement but had signalled, barring exceptional circumstances, its intention not to vary this key element of the settlement package. The settlement included:-

- Revenue Support Grant.
- Business Rates Tariffs and Top-up Payments.
- Rural Service Delivery Grants and Transition Grants.

Other elements of the consultation included proposals around tightening eligibility to New Homes Bonus and the Government's proposals for Council Tax Referendum Principles in 2018/19.

Council Tax

The Government had signalled its intention to hold the broad referendum principles from the last two years. Specifically for Districts, this meant a maximum of 2% or £5 whichever was the greater. Aylesbury Vale had chosen to increase Council tax by £5 last year, the maximum possible, representing an increase of 3.59%. The MTFP assumed a further increase of £5 in 2018/19, representing an increase of 3.47% in that year.

Against a backdrop of increasing inflation, a 2% increase was increasingly looking low and the Government would come under pressure from the sector to set a threshold which at least kept pace with the real growth in costs. Inflation was currently 2.8% as measured by CPI and 3.9% using RPI, with concern that currency weakness might push this still higher. The assumptions around the proposed increase in Council tax would be tested as part of the budget development process.

In relation to Town/Parish Councils, the consultation had stated that it expected to see clear evidence that these bodies were exercising restraint. It seemed unlikely, given the Government had thus far resisted implementing controls on this tier, that it would introduce them this year.

New Homes Bonus (NHB)

Last year the Government had consulted on "sharpening the incentive" which had resulted in the introduction of a growth baseline target which needed to be exceeded in order to attract NHB, and a reduction in the number of years for which the Bonus was paid from 6 years to 5, to 4 years in 2018/19. The Government had held back from imposing some more radical changes, but had promised to keep these under review.

This year, the consultation was seeking to revisit these. The areas of main concern were proposals to increase the base level and to withhold NHB where development was permitted on appeal.

The Council had responded to the consultation, highlighting that even councils committed to housing growth would sometimes need to reject applications where they were opportunist and where they were inconsistent with the location of growth in the local neighbourhood plans, or with the provision of infrastructure. The Council was keen to support residents' wishes enshrined in neighbourhood plans and the consultation proposals were a financial disincentive to do this.

The Council was still holding a considerable reserve of NHB funds against commitments awarded out of previous allocations. The budget proposals would need to consider how expected future allocations might be utilised, but given uncertainty over the changes the Government might implement, it would need to be more cautious over what future commitments it proposed to enter into.

Business Rates Pooling and 100% Retention

From 1 April, 2013, Government Grant was now made up of two elements – Revenue Support Grant and Retained Business Rates. The system of Business Rates Retention allowed Councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus each council would be incentivised to promote economic expansion.

The Council's ability to gain from business rates growth was limited in practice, but it still generated some tangible gains over the four years that the current system had been in place.

Appeals against the amount of business rates payable continued to present an issue. Thus far, these appeals had been successfully managed through an appeals provision. However, appeals against a number of the largest properties in the Vale were still unresolved and therefore presented a potential risk. The current assumption was that these could be managed within the existing appeals provision but this would need to be kept under review.

The revaluation of all business rates had taken place on 1 April 2017 and, as had been predicted, this had impacted some groups of businesses within the Vale. The Government had announced funding for discretionary relief for small businesses and pubs, and this relief had been designed into the local scheme and had been distributed.

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 allowed the pool to retain a proportion of business rates growth which would normally be paid to the Government. Across Buckinghamshire this had resulted in a pooling gain in excess of £1million during 2016/17 and this had been distributed amongst the partners in accordance with a memorandum of understanding signed by each of them. In anticipation of a further gain, the pool had opted to continue the arrangement into 2017/18. It was proposed to continue again for 2018/19.

The Government had consulted last year on proposals to allow local government to retain all business rates growth. This had resulted in a set of detailed and complicated proposals which it had intended to take through the Parliamentary process. However, the General Election and the resultant change in the Government's overall majority had meant that the Government no longer considered progressing the full proposals as one of its priorities. However, the Government remained committed to the concept and it was piloting ways in which to achieve the broad ambitions of its policy intention without the need for primary or secondary legislation.

As part of the settlement process for 2018/19 the Government had sought expressions of interest in acting as one of the pilots. There were a number of existing pilots in operation, mainly around the mayoral based combined authority deals. The DCLG was now keen to widen the pilots to include two tier areas.

As part of any submission, the Government wanted to see a focus on functional economic areas, with business rates retention being seen as a means to deliver economic growth in these areas, as well as dealing with local government sustainability considerations.

Buckinghamshire was made up of more than a single functional economic area with twin focuses, looking north and south. Aylesbury Vale had a strong economic focus towards the SEMLEP geographical area and this was supported by the Government's promotion of the East-West Corridor. Aylesbury Vale featured prominently in the central area of the corridor and business rates growth was seen as an important funding mechanism in terms of infrastructure delivery.

As a purely Buckinghamshire focused pilot would detract from progressing a wider retention proposal, and because of the narrow bidding window, no submission had been submitted. The time gained would be used to try to develop a wider area proposal in time for any future pilot opportunities.

Inflation and Pay

The MTFP agreed in February 2017 had been based around a number of assumptions on inflation and pay, having regard to the economic trends at that time. In practice, the looming Brexit was having unpredictable effects on the economy as markets reacted to the uncertainty this issue was causing. Much of this would be determined and resolved by the Government's final agreed approach to exit from the European Union. It was still far from clear as to what kind of agreement the Government could achieve or how global markets would react to this.

For now, it appeared that continued uncertainty would weaken the pound and push inflation higher in the short term. Seemingly, this would now hasten higher interest rates. However, the situation was volatile and provided an uncertain environment in which to plan. This would need to be kept under review, but it seemed unlikely that any great clarity would emerge during the Council's budget planning cycle. It therefore seemed probable that this would become one of those issues that would necessitate continual review and a higher level of contingency.

Last year the Staff Side and Trade Unions had agreed a two year pay settlement with 1% being awarded in the current year and 2% in 2018/19. This agreement had been built into the MTFP assumptions. The Council had also committed to a pay review and work was continuing on this. The results would need to be considered in the context of budget planning and the consideration of budget pressures.

Brexit

Officers continued to keep a watching brief on negotiations. The practical implications were however extremely difficult to assess at this stage because of the uncertainty around terms. The Council did not receive any direct funding from the European Commission. However the indirect impacts were hard to anticipate. The Council had relatively few direct employees from the EU, and so the situation was not of such significance as for those councils that had care responsibilities. However a number of this Council's contractors did rely on EU employees and this might put pressure on future contract costs.

The impact of workforce availability, tariffs, exchange rates and borrowing might all potentially push prices up. This would be reflected in the headline rates of inflation. Currently there was some upward pressure in this respect, but this was mainly the result of uncertainty. Once there was more clarity in relation to the exit terms, there might be additional costs as the market digested these and priced them in.

The Council now received a proportion of all business rates collected in the Vale. Brexit would certainly have some impact on local businesses, but this was hard to determine at this point. Businesses might choose to relocate within the EU or import tariffs might make UK production more attractive to the domestic market. There might be business rate losses or gains depending upon the nature of the final agreement. However, it seemed probable that whatever the actual impact turned out to be, it's full implications would not truly be determined for a very long time. Brexit would remain a consideration for at least the length of this MTFP.

AVDC Commercial Interests

The Council now had a number of commercial holdings, each at different stages of maturity. In line with the overarching governance approach adopted by Council earlier this year, each of these interests would present an annual business plan for consideration and scrutiny alongside the budget development process. The financial implications of the agreed business plans would be reflected in the developing budget.

Commercial AVDC

The Council's approach to balancing its finances over the period of the MTFP had been based on the Commercial AVDC Programme.

In summary, the Programme had been developed as the response to addressing the budget challenges following changes to Government funding and the desire to develop a more commercial response to the delivery of services (traditional and new) for existing and new customers. A programme of continual change and innovation had been put in place over recent years, with the last year being largely focused on a complete top to bottom rebuild of the internal structures of the Council, as well as the delivery of key innovations in service delivery.

During the last twelve months the Council's most valuable asset – its staff – had been put through a behavioural led process to ensure that the Council was fit for the future. At the same time, the Council had completely rebuilt the structure and all roles had been developed to fit with the behaviours and the more commercial approach to business. As far as could be ascertained, AVDC was the first Council to undertake this type of programme whilst at the same time redesigning and recruiting its entire staff and keeping services running seamlessly. The following headlines were of particular note:-

- Delivery of a newly designed business delivery structure fit for the 21, aligned to commercial behaviours making the Council fit for the future and ready to address the other issues set out in the MTFP.

- Exceeding the £6million target set for the programme by 2020 – achieving £2.2million in 2017/18 and delivery of £3.8million by 20121.

- Head count reduction from 471 to 426 (approximately 10%).

- 250 of the above roles had been filled by existing staff, (drivers and loaders had undertaken a different development behavioural process and were excluded from this figure). This had left 110 roles to be filled externally (around a third of all posts in the new structure, excluding loaders and drivers).

- Aylesbury Vale had managed to attract a very high calibre of applicants externally, including applicants from local government, other public services and the commercial world. This indicated that the programme overall was succeeding in bringing a more commercial mind set and approach to the Council's activities.

- To date, 88 individuals had left the Council during the course of the Commercial AVDC Programme, comprising 25 settlements, 38 voluntary redundancies, 23 compulsory redundancies and 2 resignations. Settlement/redundancy payments had been in excess of £2million and the cost of the behavioural assessments and accompanying programme had cost in excess of £1million. It was however expected that these measures would lead to ongoing salary savings of £2million p.a., representing a pay back of approximately 1.5 years.

- The new structure meant that AVDC had a fit for purpose workforce that would enable the Council to operate within its means, although there would continue to be cost pressures.

- The equalities statistics for the workforce remained broadly the same post restructure, with an overall reduction in all age groups (small increase in 31-40). Ethnicity and disability percentages were broadly the same, with the Council's gender profile also broadly similar, although there had been a slight growth in the number of female employees in senior management roles.

- Additional benefits of the restructure had already been proved, e.g., increased flexibility within the senior structure to re-allocate responsibilities and projects, the opportunity to have amore commercial focus across all sectors which should increase income streams and clarity on development requirements, recruitment branding and succession planning.

During this time the Council had also achieved a number of significant achievements exhibiting the commercial approach:-

- The first Council to deliver comprehensive and delivery focused Alexa voice skills, enabling new ways for customers to interact with the Council.

- The first public body (as far as could be ascertained) to pilot artificial intelligence to assist with handling customer enquiries, freeing up time to spend with those customers who need personal attention.

- Through the Vale Lottery, the Council had generated around £80,000 worth of new income for communities in Aylesbury Vale, as well as the delivery of seven lotteries across the country. This had increased income for AVDC, whilst also helping the wider sector and 173 communities across the country to raise funds for their areas.

- Organising and speaking at numerous conferences sharing AVDC best practice and that of the Council's partners and colleagues, as well as providing consultancy services to other public service providers enabling them to work in a more commercial way, whilst delivering income to the Council.

- The Council had moved more customer fulfilment functions onto the Salesforce platform, thereby helping staff to provide customers with a better, more efficient and faster service, and reducing complex IT legacy systems.

- The Council was midway through building "The Exchange", a new restaurant and residential development in Aylesbury town centre, and had agreed a £100million commercial property investment strategy. These, along with the Council's other strategic commercial assets would enable the Authority to continue to support its aims over the medium and long term.

- The Council was part way through the building of a new depot at Pembroke Road, Aylesbury, and was on target to launch the commercial workshop later in 2018.

- The waste team would be retiring the old HGVs and bringing in a new fleet that would be built to the latest EURO6 emission standards. This would improve emissions for the 500,000 miles the fleet travelled each year and would reduce fuel consumption as well.

Connected Vision

In 2018/19, it was proposed to build upon the progress and achievements already made, focusing on ensuring the long term delivery of public service. Work had commenced on bringing together the different strands of the Commercial AVDC Programme and other external and internal objectives into a single statement of objectives. This had been termed “Connected Vision”.

In developing Connected Vision, there had been no attempt to challenge the already clearly set objectives of the Council, namely “To secure the economic, social and environmental wellbeing of the Vale”. However, what had been finessed over recent months was the mission i.e. the driver of how the vision would be delivered. The mission as part of Connected Vision was “…to make AVDC the best social enterprise business in the UK – providing world class support for those who need it”.

A social enterprise was an organisation that by selling goods and services in the open market, could re-invest the money it made back into its business or the local community. This allowed it to tackle social problems, improve people’s life chances, support communities and help the environment. This approach added to the direction the Council was taking in terms of commercialisation, but not for its own sake, rather with an end of achieving social improvement and wellbeing of residents, businesses and environment.

The Connected Vision document sought to bring all the existing strands of work together in an attempt to demonstrate how they nested within the Council’s wider vision and the milestones which would need to be passed on the way in order to ensure its achievement. This would help with the understanding of where individual actions sat and how they inter-related. It would also help the organisation manage and direct its resources in the delivery of the vision.

The Connected vision had been expressed in a number of themes which created a framework for the delivery of the wider vision. The four themes were:-

- Financially fit (ensuring that the Council had the funds to fulfil the vision and use them wisely).

- Customer focus and innovation (ensuring that the customer was at the heart and that the Council continued to innovate for them).

- Community focused (ensuring that the Council delivered for the community at large).

- Commercially minded (ensuring that the Council fulfilled the overall social enterprise model).

These aims did not diverge from the existing direction. Clarification in this way helped to ensure that the organisation was better aligned as well as being clear about why it was developing in this way. it was intended to publish a Connected Vision update annually, communicating progress at appropriate intervals. The first iteration of this was submitted in diagrammatic form. More detail on the monitoring and reporting framework behind Connected Vision would be published at the beginning of the new financial year.

Connected Knowledge

In January, 2017, the Council had considered a technology strategy known as "Connected Knowledge". This had been endorsed as the right direction of travel for improved customer services and the main driver for efficiency over the next five years.

As part of the budget process, an initial allocation of funding had been awarded to progress the first year's work. This had been accomplished by undertaking to provide a progress report towards the end of the first year. Dependent upon this, authority would be sought for a further tranche of funding once the scope and costs of the next stage had been clarified.

Connected Knowledge had been designed to be the catalyst for technological innovation and change, thereby propelling the organisation into the future. The programme was intended to support the Council with the necessary tools, policies, people and environment that would further enhance the commercial mind set and company culture. The Council was already widely acknowledged as championing this agenda within the public sector. Connected Knowledge built upon the advances made over the previous five year cloud strategy.

This strategy and the accompanying road map had been set out in the guiding principles and objectives. The key achievements included:-

- The creation of the Connected Knowledge platform – a platform of integrated data and intelligent systems enabling properly integrated and automated transactions for all the Council's customers.

- The introduction of artificial intelligence (AI) and AI powered voice control, which over time would serve increasingly complex customer demands. The Council viewed the future as an integrated world, with staff, customers and partners all engaging with the digital technology to deliver the Council's strategy.

- Being 100% cloud software based, meaning a simplified lower maintenance information communication and technology landscape.

- A more strategic approach to what the Council did, the services it provided, who the Council worked with and what the Council bought.

In the MTFP the Connected Knowledge programme represented a major area of investment as the driver of a significant element of the planned efficiency savings across the next four years. It was intended to provide a detailed update on the programme to Cabinet in December, alongside the initial budget proposals.

Council Tax Base

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

With the growth of the Vale over recent years the tax base had increased above its historic growth trends, resulting in more council tax being collected. Whilst useful, in terms of the additional council tax generated, the reality was that the housing growth which had resulted in the tax base growth often contributed to more cost by way of demands for infrastructure and services.

It was estimated that the combination of these factors would result in actual tax base growth of just below 2% (1.97%) in 2018/19, compared to the existing 1% assumed in the MTFP. This was a slight reduction from the 2.4% achieved in 2017/18.

Capital Planning and the Impact of Spending Decisions

The revenue financing implications arising from the decisions taken by Council over the past few meetings, such as the property investment strategy and schemes at Silverstone, would now need to be factored into the budget for 2018/19 and beyond. This, along with the impacts of any other new decisions, would also need to be modelled alongside the position on capital resources.

The Capital Programme would be considered in a parallel process to that of revenue budget development and the revenue impacts of any funding decisions taken would need to be considered and built into revenue planning as part of the approval process. Where the Council had held spare cash balances, it had been used in lieu of borrowing. This had reduced the need to take long term borrowing and the Council had received the lender's return.

Utilising spare cash in this way was especially advantageous during periods of low interest rates. It was generally predicted that the Bank of England would begin to increase rates during 2017, but this was still heavily dependent on external factors and any increase was likely to be small and gradual. An increase in interest rates had recently been announced by the Bank of England.

The impact on investment income, the cost of borrowing and the returns from savings from investment decisions had therefore to be considered together in order to understand the actual effects of these decisions. The final impact of completed and planned investment decisions were still being modelled and would be set out in more detail in subsequent reports.

Process for Resolving the Budget for 2018/2019

As had been highlighted in previous years, the Council's strategy for balancing the budget had been an ongoing process and not an annual exercise purely undertaken at this time of the year. This had been driven by a desire to balance the budget through reorganisation, efficiency and income generating strategies already set in motion and without the need for a crude or simplistic cuts exercise.

The reorganisation recently completed and the Connected Knowledge Programme were both central elements of this approach. It was 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.

The Council had working balances broadly in line with its stated minimum. These allowed the Council to drive forward and invest in new savings initiatives with confidence. Balances (adding to or use of) were likely therefore to form part of the strategy for concluding the balancing of the budget for 2018/19.

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

RESOLVED –

That the approach proposed for developing the budget for 2018/2019, as set out above and for finalising the Medium Term Financial Plan, be endorsed.