FINANCE AND SERVICES SCRUTINY COMMITTEE

19 November, 2012

PRESENT: Councillor Chilver (Chairman); Councillors Beall, Mrs J Blake, Bond (for Councillor Rand), Bowles, Khan, Patrick, Tyndall, Mrs J Ward and Winn (for Councillor Isham). Councillor N Blake attended also.

APOLOGIES: Councillors Cooper and Douglas-Bate, Isham, Jarvis, Rand, Sir Beville Stanier, A Ward and Yerby.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 20 September 2012 be approved as a correct record.

2. QUARTERLY FINANCE DIGEST – APRIL TO SEPTEMBER 2012

The Committee received a report on the Council's financial performance for the period 1 April to 30 September 2012, which detailed the current position after the second quarter point of the year, together with the latest estimate of the expected outturn. Copies of the latest Quarterly Finance Digest (yellow cover) had been circulated separately and Members referred to this document whilst considering the report.

Members were informed that budget holders had re-forecast their expected outturn position in a number of areas due to activity changes in the second quarter. These included Leisure, where the street cleansing and horticultural contracts were being re-tendered as a single contract. Whilst the single contract would realise savings, there had been increased costs in preparing and reviewing the tender documentation. The final costs, again in the Leisure area, associated with the London 2012 Olympics and Paralympics were forecast to be £45,000 higher than expected.

Other areas that were forecasting higher areas of spend or lower income levels were within office accommodation that would be £41,000 higher than budgeted, and the Revenues section where the court costs income was expected to be £60,000 lower than budgeted.

There were a number of smaller underspends across a range of services amounting to £92,000 along with additional income from the Theatre in the Villages scheme. These had helped to offset some of the overspends.

This year’s budget once again included a 2% target for salary savings, which equated to £400,000. However, at present, forecast increased salary costs in some areas were greater than the salary savings, to the extent that an extra £20,000 would be required by the end of the year.

Budget holders would continue to closely monitor areas that were influenced by the wider economic picture. Development Control and Building Control income were anticipating shortfalls of around £100,000 and £65,000 respectively. The most recent forecast for car parking income was that the year end variance would be £165,000 lower than budgeted.

Budget holders would also be asked to regularly review all of their areas and to re-forecast their budgets, both positively and negatively, in order to have as accurate a year end possible for the December digest. Historic trends suggested that the outturn position would improve as the year progressed, although this experience was mainly from times of more certainty and when there had been more flexibility within the budgets.

In addition to the revenue budget position, page 17 of the Financial Digest detailed information on the level of reserves and provisions and any movements during the quarter. There had been no contributions to reserves during the quarter but a few withdrawals, principally from the repairs and renewal reserves. Any movements in reserves tended to occur in the last quarter, so the position shown in the digest was not unexpected.

The Capital Programme continued to focus on major projects. Work was coming to an end on the Aquavale refurbishment and work was progressing well at both Pembroke Road and in and around the Waterside area. The Aylesbury Canal Society had also been re-located during the second quarter.

Having commented on the need to maximise any income generating opportunities that might arise, it was

RESOLVED –

That the contents of the April to September 2012 Quarterly Finance Digest be noted.

3. SOLAR PHOTOVOLTAIC FIELDS

Cabinet had received a report on 13 November, 2012, summarising a proposal to lease land from HMP Grendon for a period of 25 years, which would be used for the generation of electricity via two fields of photovoltaic cells and which would be sold back to the prison and the National Grid. The project would provide energy security and savings to the prison and result in a reduction in the amount of carbon which the prison had to account for. The project would also generate income for the Council and have the added benefit of providing work experience opportunities for the prison inmates. The size of the scheme would result in the provision of all the prison's daytime energy needs.

Cabinet had resolved that subject to the satisfactory conclusion of negotiations, approval be given in principle for the installation, land agreements and energy disbursement of a 2.9MWp (up to 3.85MWp) solar photovoltaic ground mounted array at secure fields to the north and east of HMP Grendon. Cabinet had however asked that a further report be brought back to a subsequent with firmer financial details before any final decisions were taken to proceed.

The Committee was asked to consider the proposal as detailed below and highlight any comments for the attention of the Director and the Cabinet Member for Environment and Health who, due to another commitment, was unable to be present at this meeting. Members also considered a financial model (which formed part of the confidential agenda). This gave an indicative illustration of the costs, income streams and the estimated returns associated with the proposal.

The solar array would be located on two fields to the north and east of the prison. Panels would be installed in rows facing south. This would be a temporary structure with an estimated 20 to 25 year life. The annual energy demand for the entire prison site was 2,287,000kWh/year, based upon 2011 figures.

The current incentive situation for projects of this type provided for the choice of Renewable Obligation Certificates (ROCs) or Feed in Tariff (FIT) payments. These were incentive payments from Government to support the renewables industry in a similar way to subsidies to the nuclear and gas sectors. It was likely that the project would be funded through FIT payments as these were index linked to RPI inflation for 20 years and therefore less open to fluctuation when compared to ROC payments. The current payment from FIT was as follows:-

- All energy generated paid £0.071/kWh + RPI inflation for 20 years.
- All energy sold to HMP Grendon would be at a rate to be agreed between the prison authorities and AVDC.
- All remaining energy exported to the grid paid at £0.045/kWh + RPI inflation for 20 years.

The principal advantages of the project were as follows:-

- The site was of sufficient size to accommodate up to 13,000 solar panels, which would be sufficient to more than service the daytime energy demand from the prison complex.
- The fields were secured by 18 foot high security galvanised steel wire fencing with barbed wire and monitored CCTV cameras.
- The scheme would have limited visual impact.
- The site already housed two 11kV electrical sub-stations which meant that private wire connection and connection to the grid should be relatively easy. Negotiations were currently taking place with distribution network operators, regarding the cabling and associated costs.
- There were no issues associated with placing the panels in an optimal southern orientation.
- There was potential for labour from the prison (in the form of Category D prisoners) to be used to assist with the movement of panels and frames across the site, thereby providing work experience in an industry with future development potential.
- On-going basic maintenance could also be undertaken by the same workforce.
- Sheep grazing could take place to keep the ground flora in check, thus providing an opportunity for inmates to gain animal husbandry experience.
- The area around the arrays would be preserved for wildlife.
- The scheme would provide financial security for both the prison and AVDC at a time when public expenditure was under severe constraint.
- The project would demonstrate a significant commitment by the Council to partnership working to the benefit of the District as a whole.
- There would be a significant carbon saving (up to 1,494 tonnes per annum) which would assist with meeting the Government's Climate Change Act targets. It would also assist the prison authorities to do the same.
- The site was remote, well secured and shielded.

- The proposal would make the prison complex self sufficient for daytime electricity.

There were some disadvantages such as the need to provide proper vehicle access and the fencing already in place could have a limited detrimental effect through shading. A landscape and visual impact assessment would have to be undertaken.

Negotiations were continuing with the distribution network operators, who had suggested a budget estimate of £1,122,500 to connect to the field array. This cost would need to be reduced significantly to ensure the economic viability of the scheme.

A planning application was necessary at a cost of £17,656. The landscape and visual impact assessment would cost £6000. A surface water drainage and SUDs plan might also be necessary and this could cost in the region of £ 2,500. There would also be legal costs. With regard to the latter, various frameworks already existed for installations of this type.

The estimated cost of the construction of the scheme was £4.4 million based on the 12,830 solar panels. This cost included fees and the cost of connection to the main power grid. A number of cost elements still however needed to be refined and it was hoped that they would reduce.

If the problem of shading could be resolved, then it might be possible to increase the number of solar panels and reduce the payback period on the scheme. If the scheme proceeded, Council approval to borrow up to £4.9 million would be required.

The financial model (in the confidential part of the agenda) assumed that there was a 6% annual inflationary increase in the cost of electricity and if this assumption proved correct, then the income from the sale of electricity, together with the feed in tariff was expected to exceed the annual debt repayment costs in year seven. Until this point there would be a revenue deficit which would need to be factored into the Council's annual revenue budget. Thereafter it was expected that the scheme would return a surplus and that payback would be achieved by year 14 out of 20.

There were some significant assumptions in the model, particularly in relation to the expected increases in the price of electricity, but also around the guaranteed feed in tariff rate, which would apply to the scheme. Feed in tariff rates were being reduced by the Government at quarterly points, depending on the amount of additional supply being created nationally from PV schemes. The greater the increase in supply, then the greater the reduction in feed in tariff rates.

The feed in tariff which would apply to this scheme would only be known once the scheme had been completed and certified. Before this occurred, there was the minimum of one, but possibly two quarter points at which the Government might reduce the rate. The financial model assumed one reduction of 3.5% in the tariff rate based upon best indications of the amount of new supply being developed nationally at present. If this number was understated then the payback date might be further extended.

The other principal risk was the rate at which electricity prices increased. The faster they increased then the better the return for the Council. The model assumed an annual increase of 6% whilst in practice prices had risen faster than this rate in recent years. This therefore appeared to be a safe assumption but this was a 20 year model and there was only limited certainty that prices would continue to increase at this rate over that timeframe.

The price of electricity sold to the prison had yet to be negotiated and the model contained two options for the prison to consider. If neither of these options was acceptable then this would have a direct impact on the value of this investment proposition.

The Council would need to approve borrowing to fund the scheme, which would necessitate a variation to the Capital Programme. The revenue implications would also need to be reflected in the annual budget planning process.

The above gave an overview of the model. Cabinet had seen potential in the scheme, but had been of the view that further financial modelling was necessary before making any firm recommendations to Council on the financing aspects.

Members sought further information and were advised:-

- That there was still a significant degree of financial assessment necessary to determine the commercial viability of the scheme, given the level of investment necessary from the Council.

- That the panels had a life of around 20 years, after which they would probably need to be replaced. This particular technology was developing rapidly and it was anticipated that replacement panels would be far more efficient. The "old" panels would be recyclable.

- That other possible sites for a similar scheme had been examined, but none had the potential for delivering the rate of return on investment considered commercially viable.

- That part of the further financial re-modelling would include a discounted cash flow calculation. It was indicated that the costs associated with the access road provision were likely to be in the region of £25k.

- That whilst potentially the scheme represented an opportunity to generate additional income, Cabinet needed more certainty around the financial aspects, before any decisions could be taken on the most appropriate way forward. Members appreciated that the Council needed to be more business like in the way in which it operated in order to maintain service levels in a climate of economic constraint, where the indications were that Central Government funding would be reduced. This represented one such opportunity.

The Committee was generally supportive of the proposal, but concurred with Cabinet's initial assessment that further financial modelling was necessary before any firm investment decisions could be taken.

RESOLVED –

That the Director and Cabinet Member for Environment and Health be advised accordingly.

4. POLICY FOR THE FUTURE USE OF NEW HOMES BONUS

Cabinet had received a report on 23 October, 2012 on a proposed AVDC policy for the future use of New Homes bonus. The New Homes bonus, introduced by the Government last year, was an incentive designed to encourage local authorities to approve new housing rather than to force them through the old regional targets.

Cabinet had considered a number of options for the future use of the New Homes bonus, including their advantages and disadvantages, and had resolved that Council on 5 December 2012 be recommended:-

(a) To adopt a policy on the future use of New Homes Bonus allocations based around option 3 outlined in the Cabinet report, subject to the proposed allocation criteria enabling the carry forward of any unused sums at the end of each year, but otherwise encompassing the main elements set out within paragraph12.1 of the Cabinet report.

(b) To automatically add to the Capital Programme provision for affordable housing the additional payments of New Homes Bonus received in relation to affordable housing development.

(c) Not to apply the policy retrospectively to the years 1 and 2 allocations already received and allocated to the waste scheme enhancement works.

(d) That the percentage to be applied to the scheme should be 20%, given the respective investment requirements on Parishes and the District.

The Scrutiny Committee was asked to consider the proposed policy and information as further detailed below and highlight any comments that it wished to be reported to full Council on 5 December 2012. The Cabinet member for Resources attended the meeting and responded to questions from Members of the Committee.

Prior to formal discussion of the item, Winslow Town Councillor present at the meeting was invited to address the Committee. In so doing he referred to representations submitted previously to all Members of the Committee from the Town Clerk. The views expressed were borne in mind during the Committee's deliberations.

The New Homes Bonus scheme formed part of the Government's localism agenda. Funding for the Bonus had been found at national level by top slicing the main revenue grant which supported the provision of key mandatory services. It was not "new money" and the creation of this funding stream would therefore impact on each councils' on-going ability to fund existing service provision.

The Government had made a number of announcements on the subject which had been interpreted in various ways by different groups, most notably Parishes, which had argued that the Government had intended that those Parishes affected by growth should be free to decide how and where the money was spent.

The Council had committed to pursuing a consultation exercise with Parishes on what should be the key elements of a new policy for dealing with these funds and the report submitted to Cabinet had summarised the outcome of that consultation, and had presented options that might be used as the basis of a final policy.

A previous report to Cabinet had included details of the potential receipts from the Scheme, but for ease of reference these had been restated in the Cabinet report as follows:-

	2011/12 £,000's	2012/13 £,000's	2013/14 £,000's	2014/15 £,000's	2015/16 £,000's	2016/17 £,000's	2017/18 £,000's
Total	£810	£1,620	£2,430	£3,240	£4,050	£4,860	£4,860
Cumulative		£2,430	£4,860	£8,100	£12,150	£17,010	£21,870

Note: Assuming an average delivery of new 700 homes per year.

The Parishes had taken the Government's statements to mean that it was they who should receive the Bonus and it was they who should be able to determine what community needs were associated with growth. Those Towns/Parishes due to take significant elements of housing growth had expressed the strongest views, with the exception of Aylesbury and its immediately surrounding Parishes. Their key arguments were that the Bonus was for sharing and that there was an obligation to direct a significant proportion of the funding (at least 40%) to those communities that had generated that income. These Parishes had also indicated that they believed that distributions should extend retrospectively to the District's agreed use of amounts received for years one and two.

The Council had agreed in December, 2011, to use the amounts from years one and two (approximately £1.7m) in support of the works to the Pembroke Road Depot, to facilitate the roll-out of the enhanced waste collection service and to respond to increased pressures on waste collection associated with growth. The new service benefitted the whole of the Vale and the investment made in the service had opened up income generating opportunities.

Crucially, the Government was distributing allocations to councils as a Section 31 grant. This was not ring fenced and could be used by the receiving authority for any lawful purpose, whether this was capital investment, support of the revenue budget or placed into reserves. This did not preclude the passing of a share on to Parishes if the Council wished to do so. However, nowhere within any communication from the DCLG did it say that this was a requirement, or even an expectation. The reference to 40% appeared to be derived from the policy adopted by one council - Wychavon - but officers were not aware that this amount had been applied elsewhere. The Government could have mandated that a fixed proportion should be passed to Parishes, should it have wished this to be the case. This point had been tested with the relevant Government Department, who had confirmed that there was no requirement to pass all or part of the Bonus onto Parishes, and that receiving councils were completely free to determine how best to use the sums concerned. There was also no reference to any percentage within any Ministerial statements.

Eight Parishes (7% of the total), together with two Parish representative groups (whom it was acknowledged were speaking for the majority of Parishes) had responded to the consultation. The responses had been broadly consistent, the main points being as follows:-

- The Government had intended this scheme for sharing and there was an obligation to direct a significant proportion, at least 40%, to those communities which had generated the income.
- The Council had to consult with communities on the use of the Bonus.
- The Council's policy had to be simple, transparent and explicit.
- The Council was wrong to use the first two years' money and this decision should be reversed.

- The Council should commit to face to face meetings with Parishes prior to agreeing to its policy.
- Town/Parish Councils were best placed to decide what was best for their communities.
- Flexibility should be built into any policy to allow community pooling.
- It should be paid for even the smallest development.

Under the South-East Plan, the Council was designated as a growth area. Even when these numbers were replaced by the Vale of Aylesbury Plan, the Vale was still likely to see 13,500 new dwellings constructed over the next twenty years (including existing permissions). This represented a potential increase in the Vale's population of the order of 10%. Whist Community Infrastructure Levy (CIL) might provide for some immediate infrastructure requirements, it was unlikely to ever cover all of the demands placed upon it. In particular, it was unlikely to unlock all of the strategic enabling work key to the future development of jobs, transportation links or the retail and leisure offer that growing communities required. This was particularly relevant now that the Government had indicated that CIL payments might be negotiated downwards by developers where they were considered to make a development unviable.

The Council had some known, potentially significant, infrastructure demands arising in the next few years, with contributions to East West Rail in the north of the District and the Eastern Link Road in the south. The limitation of CIL might place a potential barrier on this Council's ability to contribute to these major projects. With this potential restriction on CIL, further stringent reductions in revenue support for councils and the limitation of increases in council tax, the New Homes Bonus represented one of the few remaining mechanisms available to AVDC to deliver the growth related investment demanded by residents.

Cabinet had recognised that a New Homes Bonus policy needed to carefully consider the strategic importance of this funding stream to the whole District when weighing up relative distribution between Parish and District requirements. The other implication for the Council was the impact on the revenue budget associated with the introduction of the Bonus and the demand for services created by larger communities.

As previously referred to, the New Homes Bonus Scheme was funded by top slicing the core revenue grant awarded to councils each year. This directly impacted on the funding of each council and their ability to provide a standstill level of service provision irrespective of growth. Not including funding of the Bonus, the forecast reductions in Government Grant currently stood at in excess of 30% for the Comprehensive Spending Review (CSR) period. Funding of the Bonus would further compound these reductions.

The communities created also had service demands and these communities had, as a minimum, to receive core services such as waste collection. The level of growth proposed within the Vale of Aylesbury Plan was of the magnitude of 20% and this would have a considerable impact on service demand. It was for this reason that the previous report on this subject had proposed top-slicing the grant to mitigate the revenue impact of its introduction, estimated to be between 20% and 25%, and also to ensure continued provision of key services into the future.

It was reported that there were few (if any) examples of councils passing New Homes Bonus grant onto Parishes for them to do as they wished. Most were holding on to awards to mitigate the impacts of growth or to offset the impact of reductions in revenue support grant.

The DCLG New Homes Bonus Unit had published examples of what they considered good practice on their web site. Wychavon District Council featured consistently as one such example. That Council currently allocated a proportion of the Bonus for community use, and awards were made by the Council's Executive upon production of a justified application.

The County Council, which received a 20% share of Aylesbury Vale's growth payments, had initially committed to use it on Rural Broadband. The Parishes were also lobbying the County for a share of the County's allocation.

Cabinet had considered the following options, having regard to the above factors, in making their recommendations :-

OPTION 1

The Council could retain the entire Bonus and allocate it according to its perceived highest priority needs for the District. These could be revenue support for existing services, investment in new infrastructure (associated with existing growth or not), or enabling investment so as to unlock new growth and private sector investment. This option need not preclude allocating funding to initiatives proposed by Town/Parish Councils associated with growth.

Advantages

- It would provide the District with the greatest freedom to meet growth and community needs, at either sub-regional, County, District or Parish level.
- The aggregation of resources enabled larger, strategic schemes to be delivered as well as smaller schemes where these were considered a priority.
- It allowed for investment of the Bonus with a high level view of relative priorities.
- It could be directed into funding initiatives in those Parish areas most affected by growth.

Disadvantages

- It denied Parishes the ability to choose for themselves the initiatives that would benefit their residents.
- It did not obviously accord with the Government's expectation of consulting with the communities affected by growth, nor would they necessarily be convinced that they were benefitting from growth if they could not clearly see the investment taking place within their area.

OPTION 2

This was a variant of Option 1 and although under this proposal the Council still retained all of the New Homes Bonus, it allowed for external input on how the funding was allocated. This external input would be provided by those stakeholders who understood and represented the interests of the community and would include Parishes or their representatives and members of the business community.

It was envisaged that this group would consider the list of strategic infrastructure requirements for the Vale, together with their own proposals and make recommendations to Council on which should receive funding.

Advantages

- The aggregation of resources still enabled larger, strategic schemes to be delivered as well as smaller schemes where these were considered a priority.
- It allowed for investment of the Bonus with a high level view of relative priorities.
- It could still be directed into funding initiatives in those areas most affected by growth.
- It benefitted from an independent assessment of what the key investment priorities were and demonstrated community consultation.

Disadvantages

- It introduced external influence into Council decision making.
- The smallest schemes were liable to "fall through the cracks".
- Parishes were unlikely to be happy that this proposal satisfied their requirements.

OPTION 3

The Bonus would be split (in a proportion to be agreed) between Parish nominated initiatives and District nominated initiatives. It was not proposed under this option that the funding would be automatically passed to Parishes, but instead they would be able to bid against the pooled pot in a "Community Chest" type fashion. The form of an allocation panel would need to be agreed, but could involve external representation. To demonstrate transparency, awards would be publicised. This option was most similar to the approach adopted by Wychavon DC.

Advantages

- It partitioned a fixed proportion of the Bonus for local initiatives which clearly compensated for the impacts of growth.
- It would leave a fixed proportion available to the District to allocate without the need to be directly accountable to those Parishes responsible for growth.
- It would allow the entire District to benefit from growth and would mean a move away from the idea that the impacts of growth were contained within the Parish where the growth was located.
- It demonstrated consultation with Parishes on how the Bonus should be used.
- It demonstrated community benefit, although arguably not to all communities as the pot might be aggregated and targeted into community centres.

Disadvantages

- It reduced the extent of the resources available for District nominated schemes. Thus it might not have the resources for the largest schemes or alternatively they might take longer to deliver.
- It still did not give individual Parishes control over their perceived resources and consequently it might be seen as District control and thus unpopular with some.

OPTION 4

This was similar to option 3 in that the Bonus would be split in a fixed proportion between the District and the Parishes. Rather than the Parish element being retained in a pooled fund, the Parish element would instead be passed directly to the Parishes responsible for generating the growth, and they would have the freedom to decide how and when they spent the sums generated.

Advantages

- Parishes would get some direct benefit from housing growth delivered in their area.
- Parishes would receive some benefit from even small scale growth, i.e. those which would not attract S106 receipts.
- This was the option that most Parishes who had responded to the consultation appeared to favour.

Disadvantages

- The disaggregation of funds would dilute the resources available and would mean that larger Parish sponsored initiatives would be less likely to be deliverable unless Parishes could agree to act together and pool their funding to deliver a scheme in one Parish area.
- It did not necessarily follow that the benefit communities wanted to see from growth would be located in their Parish. For example, the residents of Berryfields might want better shopping, food and leisure opportunities in the centre of Aylesbury. Only through pooling the Bonus receipts from all surrounding areas might their requirements potentially be delivered.

In addition to the main element of New Homes Bonus, the Government paid a separate amount for each unit which was classed as affordable. This additional element equated to £350 per property and was paid a year later than the main element. In year one the Council had received £71,000 via New Homes Bonus for the affordable housing units delivered. It was proposed that this element should be treated separately to the main allocation and any receipts derived from it should be allocated to the Capital Programme to help deliver new affordable housing.

Cabinet had been informed that a face to face meeting of all the interested parties had taken place on 31 July, 2012, when the above options had been discussed. Parishes had requested additional time to consider the options with their respective Parish Councils and it had been agreed that responses could be sent to the Council by 21 September. The responses received subsequently, together with the views expressed at the meeting had been generally supportive of option 4, but with some acceptance of the advantages offered by option 3, particularly by the larger Parishes which expected to take some growth under the Vale of Aylesbury Plan.

Non-Cabinet Members had been offered an opportunity to comment on the proposals during the pre-Cabinet discussions on 23 October during which reference was made to correspondence received from the Buckingham Town Clerk.

Cabinet had been of the view that the final form of any policy had to take a balanced view of the needs of the District Council and those of the Parishes. It was however accepted that, like the District Council, Parishes also had spending pressures associated with housing growth which extended beyond those that might be met through increases in taxation. It had therefore been felt that part of the Bonus should be reserved for schemes proposed and delivered by Parishes.

There had also been recognition, again in the same way as it applied to the District Council, that these pressures tended to be stepped pressures i.e. not triggered by the addition of individual properties in a given area, but by the accumulation of growth over a period of time. Based upon the accumulation of growth principle, there would be points where there would be a need for the provision of new community facilities and therefore a recognition that significant capital investment would occur at these points. Passporting individual amounts of Bonus to Parishes, as in the case of option 4, would not achieve this as the Bonus would be scattered and not targeted to where there was a demonstrable need for significant spend in a Parish area to help with the provision of community facilities associated with growth.

Distributing amounts in accordance with option 4 would result in small awards of a few hundred pounds to many Parishes. Whilst these were likely to be useful in terms of balancing annual budgets, they were unlikely to result in the delivery of projects which had tangible benefits for the communities accepting growth. It was an important element of the Bonus Scheme that residents should be able to see the rewards of accepting growth, and it was unlikely that option 4 would deliver this in the majority of cases.

Cabinet had therefore felt that option 3 should be recommended as the preferred option as it would better deliver benefits to areas of demonstrable need, and through the aggregation of sums generated, it would make for useful and tangible contributions to projects in those Parish areas that needed it most. It had been recognised that this was not specifically the option that Parishes preferred, but the awards of Bonus under this scheme were strategically important and the Council had a duty to ensure that their application was targeted and used strategically so that everyone in the Vale benefitted as a result of housing growth.

Building upon the consultation feedback and the experience gained from other awards processes, Cabinet had felt that the key elements of the policy should be:-

a. Annual awards should be identified and accounted for separately within the Council's accounts. The usage made of the scheme and the distributions should be transparent and reported on the Council's web site.

b. Annual awards of Bonus would be top sliced and a proportion taken into the General Fund Revenue Account. This would mitigate the financial impact on Government Grant resulting from the introduction of the scheme together with the revenue impact of providing services to new residents. This was estimated to be in the range of 20% to 25%, but would vary depending upon the amount of new housing delivered nationally.

c. Of the remaining sum, a provision of a percentage amount would be set aside annually (retained by the District) for Parish and Town Council nominated schemes.

d. There would be an application process and awards would be made annually alongside the budget process so that allocations were known in advance of the financial year to which they applied.

e. Awards would be assessed by a separate panel convened for this purpose and recommendations would be passed to Cabinet for final determination. The composition of the panel would be agreed separately but it was envisaged that it would be cross party and would include representation from Parish bodies. This particular aspect was stressed by the Cabinet Member for Resources in response to questions from Committee Members.

f. Award criteria would be for the panel to determine, but it was expected that applications should include a business case which as a minimum should demonstrate:-
   - o The impact of growth on their area; applications need not necessarily be from the area directly taking growth in recognition of the fact that those most affected by growth were not always within the area taking that growth;
   - o The need or community desire for the investment proposed;
   - o Firm costings together with a funding and delivery plan.

g. Awards could be for up to 100% of the scheme cost and could support both capital and revenue projects (with a life of less than 6 years).

h. It would be a condition of the scheme that the contribution made by New Homes Bonus should be clearly identified to the local community.

i. Multi-year awards could be made, recognising the 6 year award timeframe used in calculating allocations of New Homes Bonus, but these would not be underwritten by the Council and any changes by the Government to the national New Homes Bonus Scheme would be reflected in annual awards, irrespective of forward allocations.

j. Any unused sums at the end of the year would not be carried forward.

k. Separate awards made by the Government for the affordable housing element would be ring-fenced for new affordable housing provision and allocated by the District Council in accordance with its priorities.

l. It was expected that the District Council would use its share of the Bonus for schemes associated with population growth.

The Cabinet Member for Resources had indicated at the Cabinet meeting that he had reconsidered the issue of carrying forward funds (referred to in sub-paragraph j above) and had concluded that this should be permissible. An appropriate adjustment would therefore need to be made to the key element referred to in (j) to facilitate this. The recommendations made by Cabinet to Council took account of this revision.

Cabinet Members had appreciated that the amount to be ring-fenced for Parish use needed to be determined as part of the proposed policy. Parishes had consistently referred to 40% of the New Homes Bonus as being a significant and fair amount. The Government had not mandated a proportion that should pass to Parishes, nor had it indicated that any should pass at all. Careful consideration needed to be given to the respective needs of Parishes and the District's residents associated with growth. Also any allocation to Parishes needed to consider the strategic importance of the Bonus in terms of being able to meet those respective demands. The Cabinet report had incorporated a schedule containing example distribution percentages. Even at the lower end of these shares, the amount available for Parish use would approach £1m annually, which was a significant proportion. Cabinet had felt that the percentage to be applied to the scheme should be 20%.

Members commented as follows:-

- One Member of the Committee indicated that he had received correspondence from one of the Parishes that made up his Ward commending the option proposed by Cabinet as an illustration that not all Parishes were of the same view.

- It was commented that it might be argued that the introduction of the Scheme was merely paid “lip service” to the localism agenda. It had to be remembered that this was not new money and that Scheme funds had been top sliced from Government Grant.

- Merit was seen in the establishment of a cross party panel (which would include Parish representation) to determine applications but members were concerned about the lack of details about composition and terms of reference. It was however indicated that a panel would enable a greater degree of expertise to be injected into the administration of the funding to be made available. It was considered vitally important for the allocation process to be transparent.

Overall, the Committee supported the proposed policy being recommended by Cabinet for approval by Council, emphasising however the comment in bullet point three above that Members would have liked to have seen more clarity around the composition of the panel, its terms of reference and the detailed processes for the consideration and determination of applications. Accordingly, it was,

RESOLVED –

That the view expressed above be reported to full Council on 5 December 2012 when the AVDC policy on the New Home Bonus would be considered.

5. BUDGET PLANNING 2013/14

Cabinet had received a report on 13 November, 2012 on the high level issues faced by the Council in developing budget proposals for 2013/14 and in terms of updating the Medium Term Financial Plan (MTFP). The report had also asked Cabinet to agree the approach to be taken to develop the future budget and MTFP.

The Scrutiny Committee was asked to consider the high level issues and proposed approach to developing the 2013/14 budget and MTFP, and highlight any issues that they wished to be reported back to Cabinet.

The Medium Term Financial Plan (MTFP) approved by Council in February 2012, had identified the need to find further budget reductions or additional income totalling £1.2m in order to balance the budget for 2013/14. The Plan had included only a modest reduction in Government Grant based upon the high level Government spending numbers set out in the Comprehensive Spending Review (CSR) 2010.

However, the prospect of lower reductions in Government Grant had been offset by the higher assumed impacts of inflation. The Committee report predicted that inflationary pressures could only be suppressed for so long and would therefore need to be factored into the budget for 2013/2014.

The Cabinet report covered the following issues:-

(i) Government grant settlement, and the new system of Business Rate distribution, retention and national pooling arrangements.

(ii) Council Tax Freeze grant – the Government had announced its intention to offer a third year of Council Tax Freeze Grant for councils who held their increases to no more than 1% and for those that choose not to do so a Referendum Cap would be imposed at 2%.

If the Council opted to reject the Freeze Grant and increase Council Tax up to the 2% cap, then the loss compared to the 2.5% assumed in the MTFP would require an additional £45,000 of savings to be found. If it was accepted then an additional £136,000 of savings would need to be identified above the current MTFP target. This would increase to £227,000 when the 2 year Freeze Grant ended in 2015/16.

(iii) New Homes Bonus – as the Government intended to top slice formula grant to pay for the New Homes Bonus, the Council's NHB Policy recommended by Cabinet assumed that some of the Bonus would be used in the revenue budget to compensate for the loss.

(iv) Inflation, Pay and other economic pressures – The MTFP assumptions had been based upon a gradual improvement in the economic outlook. The economy had, however yet to show any substantive improvement although inflation had now finally started to decrease. As a result the amounts assumed for Pay and Inflation could probably be relaxed significantly.

(v) Financial Impacts of Major Capital Investment decisions – the business cases supporting the Council's decision to invest in major capital projects such as Waitrose, the Gateway, Pembroke Road Depot and Aqua Vale all had revenue costs and income (or savings) which would impact on the budget. These had been factored into the budget proposals in accordance with approved business case assumptions. Because costs (the borrowing to fund construction) were generally incurred before the savings, the financial impacts of these decisions were front loaded on the budget.

(vi) Savings and Transformational Efficiencies – efficiency initiatives had generated large savings over the past few years and for the most part significant cuts to services had been avoided. The Council would need to continue to think radically about service delivery with a view to further reducing costs.

Officers had looked to the transformational pieces of service work already in progress to deliver the bulk of the predicted saving requirement for next year with this being supplemented by opportunistic savings which had been identified in the current year.

The two main elements of this had been the changes to the operation of the Customer Service Centre which were anticipated to save between £425,000 and £500,000 and the redesign of the Waste Service where there was still considerable uncertainty over the final savings, but these were estimated to range between £200,000 and £800,000 per annum.

(vii) Process for Resolving the budget for 2013/14 – work would continue on refining the budget process making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate. It was hoped that the final budget for 2013/14 could be resolved without the need for a simplistic cuts exercise.

In the event that Government grant was lower than anticipated it might be necessary, in the short term, for the Council to use balances to resolve the budget position. Any shortfall would then need to be addressed in future years. Conversely, any savings would be banked and could be used towards balancing the remainder of the MTFP in the future.

Members were particularly interested in the new business model being progressed as a means to generate additional income and protect service provision. Indeed, it was felt that this was an area of activity that the Committee should review in more depth and this fact was recognised when determining the future work programme.

RESOLVED –

That the high level budget position be noted.

6. WORK PROGRAMME

The newly formed Finance and Services Scrutiny Committee had held its first meeting on 20 September 2012.

Information had been circulated to Scrutiny Committee Members in the lead-up to this meeting asking them to identify issues that they believed could be included on the future work programme, as either a single report to the whole Committee or as a more "in-depth" review over a number of meetings. In suggesting issues, Members had been asked to be mindful of a number of issues including the Committee's terms of reference and the current work programme.

Appendix 4 to the Committee report identified a number of issues concerning which the Committee might wish to pursue in depth reviews.

The Committee report also included a prioritisation guide to help identify whether an issue might be of high/medium/low priority for inclusion on the work programme, and a draft of a scoping document that could be use to define how identified issues would be scrutinised. After due consideration, it was,

RESOLVED –

(1) That provision be made within the work programme for consideration of the following:-

- Waste Transformation : follow up
- Quarterly Finance Digests (on-going)
- AVDC staff sickness/performance management
- Cloud computing/strategic IT partnership with Dacorum Borough Council
- Public Sector Equality Duty
- Business rates retention

- Localised Council tax Benefits Scheme (12 months time)
- Procurement (including the horticultural/street cleansing contract)
- New Homes Bonus (after a suitable period following implementation of the new policy)
- Annual Performance Report (on-going)
- Business continuity
- Management of Council-owned buildings (in particular Pembroke Road, The Gateway and High Street)
- Management of Leisure centres.
- Income generation/New business model (including the Oculus business plan). It was felt that the subject of income generation was of such significance given the anticipated reductions in Government support grant, that this might be the subject of issue concentric meetings/task and finish group review.
- Transparency of information/accountability and how the Council uses the information.

(2) That the scoping document (Appendix 1 to the Committee report) to be used in the future to define how identified work programme issues would be scrutinised, be agreed.

(3) That authority be given to the Director and Senior Scrutiny and Democratic Services Officer, in consultation with the Chairman, to prepare a work programme taking account of the issues raised at the meeting.