FINANCE AND SERVICES SCRUTINY COMMITTEE

16 NOVEMBER 2015

PRESENT: Councillor M Rand (Chairman); Councillors J Chilver, B Everitt, S Lambert, E Sims, M Smith, M Stamp and M Winn.

IN ATTENDANCE: Councillor Mordue.

APOLOGIES: Councillors B Chapple OBE, J Bloom and A Huxley.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 12 October, 2015, be approved as a correct record.

2. WATERSIDE NORTH PHASE 1 - APPOINTMENT OF A DEVELOPMENT PARTNER

AVDC's strategy on the redevelopment of the Aylesbury town centre had three key aims, namely:

- To improve the attractiveness of the town centre through developments which acted as a catalyst for further investment by the private sector and other public sector partners for the overall benefit of the town and the economy. An example of this was the theatre which had attracted a range of new restaurants to the town and was underpinning interest in the Waterside North Phase 1 development.

- To use its own developments to directly generate new jobs and new wealth in the local economy - Waitrose and Travelodge have collectively delivered 200 new jobs.

- To create a revenue stream for the council from the rental generated by tenants of the buildings constructed by AVDC.

AVDC was committed to the successful delivery of the Waterside North masterplan as the next development to help meet these aims. A masterplan had been worked up in consultation with a number of stakeholders including Buckinghamshire County Council (BCC) who owned land adjacent to the current temporary Exchange Street car park owned by AVDC. The plan had received widespread public endorsement through a public consultation process in May 2014.

The Committee received a report that had been considered by Cabinet at its meeting on 10 November, 2015, and that had provided an update on the current marketing process (which had commenced in Autumn 2014) to seek a suitable Development Partner for the delivery of Phase 1 of the Waterside North Scheme. Cabinet had considered the report, as well as a separate confidential appendix which provided a detailed financial appraisal of the scheme, and had recommended to full Council (meeting to be held on 2 December, 2015) that:-

(i) Developer A be appointed as the Council's development partner.

(ii) £4.1m be included in the Capital Programme in order to acquire the commercial element of the development.

(iii) Expenditure of £3.3m be approved for the public realm element of the Scheme (also included in the Capital Programme) on the basis that this money was expected to be reimbursed by the South East Midlands Local Enterprise Partnership (SEMLEP).

In addition to the recommendations to Council, the Cabinet report set out the next steps to be taken to deliver the scheme including the procurement process and explained that the submission was not complete so further work would need to be done with the development partner to progress the scheme to detailed design as well as finessing the draft Development Agreement which formed the detailed contract between AVDC and the developer for the delivery of the scheme. The report also included information on the financial and legal implications, on construction finance, on the public space area that would wrap around the scheme, the impacts on car parking and an assessment on the rental income the commercial space provided was likely to achieve.

The major risks faced in progressing the scheme had been considered and a Risk and Mitigation statement was attached as Appendix 3 to the Committee report.

If Council approval was given to the appointment of Developer A, along with associated Capital Programme expenditure, then the anticipated timeline for progression of the scheme was:-

- December 2015 – Risk workshop and formulation of the AVDC / Development Partner delivery team
- January 2016 – Legal agreements including the Development Agreement completed.
- January 2016 – Formal pre-application submission.
- Spring 2016 – Referred matters planning application.
- Autumn 2016 – Start on site.
- Spring 2017 – Completion.

Members sought further information and were advised:-

(a) that while there would be a permanent loss of 90 car parking spaces in the Exchange Street north car park resulting from this phase of the development, there was still ample parking provision for the Town Centre. The County Council would also be providing a new temporary car park to the rear of their old offices that would replace the majority of the permanent spaces lost. A Parking Strategy would also be commissioned to ensure that all car parking issues could be considered and addressed for both this and future phases of the development.

(b) that it was not expected that everyone who bought the residential units would own a car. Developer A had proposed that an integral car park was not the best parking solution and, as such, residents would be expected to purchase a parking permit.

(c) that the Council was working with the letting agents (Strutt and Parker) regarding marketing and pre-letting the café/restaurant space. It was currently estimated that the Town Centre was 15-20 eating places short of capacity so there was no danger of this space plus 2-3 eating establishments at the university campus leading to an oversaturation of the market.

(d) that in recognition that it could borrow at significantly lower costs than the developers, the Council had indicated to both developers that it would cash-flow up to 75% of the development partner's costs (beyond the unconditional stage). By capping lending to 75% and requesting security over the partially completed asset, as a lenders charge, together with a parent company guarantee, the Council's financial interests would be protected whilst at the same time ensuring that the cost to the Council of the development partner financing the scheme were minimised. It was also confirmed that any loans would be subject to an independent valuation of completed work.

(e) that progression of the scheme was not dependent on the neighbouring development that the County Council was undertaking on their old offices.

(f) that it had not been viable to provide affordable housing as a part of the residential element of the scheme.

(g) that the overage payment arrangements for the residential element would be 30/70 in favour of the development partner, which was normal for these type of schemes. It was anticipated that the Town Centre developments, that had been led and initiated by AVDC, would positively influence the value of the Phase 1 scheme.

(h) on the legal arrangements regarding the draft Development Agreement, which were still being finessed. It was explained that the development site would be given on licence to the developer during the construction stage so AVDC would retain the freehold.

(i) that AVDC had been informed by SEMLEP that £3.3m in Government Growth Funding had been awarded to fund the public realm that would wrap around the scheme and complete the area between Walton Street, the County Council's buildings and the existing Odeon complex. In the event that Government reneged on this commitment then funding could still be provided for from within the capital programme.

(j) that part of the arches at the bottom end of Market Square (that abutted the scheme) would be kept as they also supported the Court building.

(k) that AVDC was still awaiting news from Government on any New Homes Bonus (NHB) allocation for 2016/17, which would impact on the capital programme and this scheme. However, if NHB was not forthcoming due to changes in Government policy then funding would be provided in the first instance from within the overall capital programme, or from the Public Works Loan Board as a last resort.

Members also commented:-

- that the Waterside North development was a good news story for the Council that would allow future income generated from the retail element of the scheme to help provide core services for residents.

- that it would be important for the public to be kept informed of the scheme as it progressed.

RESOLVED –

(1) That the Scrutiny Committee supports Cabinet's three recommendations to full Council, regarding the delivery of Phase 1 of the Waterside North scheme.

(2) That Council be asked to take into the account scrutiny's comments in approving Developer A as the Council's development partner.

3. CAPITAL PROGRAMME

The Council maintained an integrated strategic capital programme that was divided into three sections.

- Major Projects – that have the largest and highest profile.
- Housing Schemes – for housing enabling and housing grant based schemes.
- Other Projects – being all the other schemes included within the capital programme.

Details of the capital programme available resources and proposed capital spend for the period up until 2019/20 was included at Appendix A to the Committee report. The programme was reviewed annually with the current programme last being approved and adopted at Council in March 2014.

The Committee received a report that had been considered by Cabinet at its meeting on 10 November, 2015, and that had provided an updated position with respect to forecast receipts, a revised position (as necessary) regarding current schemes and also seeks the inclusion of future new major investment proposals.

The economy was continuing to grow despite the wider European problems, which in turn was having a positive impact on the construction industry and, in particular, housing. House prices had increased by 8.6% compared to last year. However, this appeared to have had a negative impact on the appetite for home ownership amongst former Council House tenants. As such, anticipated income from Right to Buy, one of the Council's major sources of capital income, was likely to be down on the level received over the last couple of years. This was despite the Government increasing the available discount for tenants from £38,000 to £75,000 in April 2012.

Any decrease in anticipated resources effectively reduced the level of resources available to fund new schemes and so increased the possibility of borrowing and this had to be factored into the programme as follows:-

- Share of house sale receipts from VAHT - these flow from the stock transfer agreement and run for 25 years from the transfer date. The number of sales has been forecast to be 20 for 2015/16, with the same number being forecast for 2016/17.

- Asset Sales - these are sums released from the disposal of Council-owned assets, mainly land or property. The majority of these disposals are for housing development schemes. Existing assumptions around timing and values have been reviewed on the basis of the current state of the housing market.

- Capital Contribution – This relates to the contribution from the New Homes Bonus reserve allocated to Capital Schemes by Council.

- Revenue Contributions –These include New Homes Bonus and use of Repair Reserves.

The available resources at the beginning of 2015/16 and projected resources at the end of the Capital Programme period of March 2020 before any expenditure had been taken into account was:-

	Current Resources April 2015 £'000s	Resources Projection March 2020 £'000s
Share of Right to Buy Receipts	2,793	7,793
VAT Share (Ends 2016)	428	1,428
Asset Sales	6,815	9,523
Capital Contributions	839	839
Lottery and Section 106	0	3,900
Revenue Contributions	0	6,547
Prudential Borrowing (UCAV)	0	6,419
Total	**10,875**	**36,049**

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

The Major Projects section of the Capital Programme comprised the University Campus Aylesbury Vale (UCAV), the Waterside development and the Swan Pool re-development. The £2.7m Swan Pool re-development remained on budget and target to be completed in January 2016. The business case for the development of restaurant outlets and housing on part of the Exchange Street carpark was included as a separate agenda item to the meeting.

In 2011/12 Cabinet had recognised the need to purchase the Pembroke Road Depot (Unit 17/18), Unit 19 (existing Sita/John O'Connor building) and units 12-16 south of the site to allow for the expansion of the depot. Expansion was required based primarily due to operational limitations relating to vehicle parking and waste storage capacity, but business opportunities around development of a new workshop for our own HGV's and MOTs were also a consideration. The specific factors requiring the acquisition were set out in more detail in the report.

Aylesbury Vale Estates (AVE) had indicated their willingness to sell the land at Pembroke Road for the book valuation, but as the land required encompassed ¾ of the available land at Pembroke Road, AVE would wish to dispose of the entire site as any residual land in their ownership would have little operational value to them.

The entire site was valued at £2.2 million and was independently assessed as representing a fair value. Because of the nature of the ownership of AVE, half of the payment would ultimately be returned to AVDC through higher returns from AVE.

The additional land, beyond the Council's minimum requirements to deal with the operational issues, presented an income generation opportunity from an enhanced workshop and Authorised Testing Facility, and secured the Council's place in the market as the Vehicle and Driver Standards Agency was currently closing existing Authorised Testing Facilities and pushing the work to the private sector.

The main element of Housing Schemes related to the Council's housing enabling function. The Strategic Housing team negotiated with private developers and

Registered Providers, (housing associations), to help deliver a policy compliant level of affordable housing. It was often essential to contribute a level of grant to help this and ensure the best mix of units was brought forward. The Council continued to be successful in delivering affordable housing projects over the period of recession. No changes were being proposed to the funding provision for housing projects.

The provision for other projects within the capital programme remained unchanged, other than carrying forward unspent sums on schemes, many of which had been delayed for reasons outside of the Council's control. The programmed included a provision to replace some of the Refuse and Recycling fleet. A number of vehicles will be replaced in March with the balance being rolled forward into next year.

Information was provided on new schemes, a Compulsory Purchase Order in respect of a long term property in Albion Street, Aylesbury, and the disposal of the Elmhurst Community Centre, although the anticipated sale receipt had yet to be finalised.

Members sought additional information and were informed:-

(i) on the circumstances regarding the purchase of the Pembroke Road site and on the Depot upgrade.

(ii) that the Council leased the majority of its refuse vehicles, particularly due to the wear and tear on them when dropping refuse to the Calvert landfill site. However, the Council also bought some refuse vehicles where it was considered economically advantageous to do so.

(iii) that the provision for the Waterside North (Exchange Street) major project was actually £4.1m, that would need to be updated in Appendix A. While it was slightly higher than the figure indicated in Appendix A, it did not impact on the overall programme.

RESOLVED –

That Council be recommended to approve the capital programme and proposed capital spend, as detailed in the updated Appendix A to the Committee report, for the period up until 2019/20.

4. BUDGET PLANNING 2016/17

The Scrutiny Committee received a report that set out the high level issues facing the Council when developing budget proposals for 2016/17, and also impacted on updating the Medium Term Financial Plan (MTFP). The report also set out a proposed timetable in order to agree the budget and set the Council tax prior to the end of February 2016. The report had already been considered by Cabinet on 10 November 2015.

The current MTFP for 2016/17 had been agreed by Council in February 2015 and predicted the need to identify £0.7 million of savings in order to balance the budget for 2016/17 based upon the information available at that time and a set of assumptions around key variables within the budget. These key assumptions needed to be revisited and reviewed as part of the budget planning and preparation process for 2016/17 and for the future MTFP period.

The Council had responded to large reductions in funding support over the past 5 years whilst managing the expectations of the Vale's residents and was now awaiting for the new Spending Review which would provide direction and the shape of funding for the next 5 years. However, the Government was committed to balancing the budget within this 5 year planning period and, therefore, continued efficiency, income generation and potentially cut backs for local government were likely to continue.

The results of the Spending Review were expected on 25 November, 2015, with Councils then informed of their grant allocations in late December 2015. Unfortunately, this was after the date when Cabinet would have published is initial budget proposals for 2016/17. As such, the report proposed a strategy for resolving the budget within this wider uncertainty, provided an update on the key assumptions / risks and also considered the options and alternative approaches available for resolving these.

Government Grant

Since 2010/11 the Council had seen its Government support (Grant) reduced from an equivalent of £13 million to £6 million in 2015/16. Given that the Government grant in 2010/11 had funded 58% of services, the impact of the reduction had been far reaching. The Council had reacted through increased efficiency, higher charges in some areas, new money making initiatives and through the reduction and the cessation of some services. However, against this backdrop the majority of services survive and in many cases the quality of service provided had improved.

Since April 2013, Government Grant comprised two elements, Revenue Support Grant and Retained Business Rates. The system of Business Rate 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. Core to the Council's financial planning was the assumption that all Government Grant support, including that represented by Retained Business Rates, would end by 2020/21.

Whilst it is believed, that the Government might not actually remove the retained element of business rates, it had been assumed that they would capture value associated with it through other means, i.e. by removing another funding stream, by introducing a new charge or by passing on a new unfunded responsibility. The Chancellor's statement to his Party's conference in October 2015, that all business rates would be retained by councils in 2020, did not directly contradict these assumptions.

Chancellor's Statement and its Potential Implications

In October 2015, the Chancellor had announced plans to hand over, by 2020, 100% of business rates revenues - currently worth £26bn a year, to local government. The aim of this 'devolution revolution' reform was to ensure all income from local taxes was then spent on funding local services.

There would be far reaching consequences of this major shake up of the system of financing local government including abolishing the Uniform Business Rate and instead allowing local authorities to set business rates in their areas and benefit by retaining 100% of growth in business rates as a reward for promoting growth.

As revenue support grant and other funding streams such as New Homes Bonus were funded from the 50% of all business rates that was received by the Government it was likely that these would be phased out, with local government possibly asked also to take on additional (as yet unnamed) responsibilities, to ensure that the reforms were fiscally neutral.

There was considerable detail that would need to be explained before the true nature of the announcement and its implications for individual councils could be understood, for example, the allocation of growth between tiers, the baseline allocation of resources across the country (currently Aylesbury Vale collected £46 m but only keeps £3.5mm) and what safety nets might exist for areas overly dependent on a single employer.

The council would continue to remain vigilant and explore all options through the budget planning process as they become clearer.

Determination of Grant Numbers for Provisional Budget Planning

The Government had pre announced indicative settlement figures for 2015/16 in 2014/15 so the Council was able to plan with a degree of certainty for the reductions in funding. However, there was still uncertainly regarding the scale of any changes to core grant funding over the coming years. Over the past 3 or 4 years the reduction for AVDC had been fairly consistently and averaged £1.2m – £1.3m per annum. The reduction for 2015/16 was £1,176,380. In the absence of any clearer information it was proposed to base Medium Term Financial Planning on the continuation of this trend with grant funding being completely removed by 2020.

The actual Grant reduction numbers were not expected to be announced until late December 2015 that would again impact upon the Council's ability to consider its budget planning proposals in good time.

Business Rates Growth Retention

One of the key features of the new system of government funding was the introduction of local Business Rates Retention, i.e. retention of a proportion of growth or losses. In practice, after levies and tariffs (needs based assessments) were applied AVDC would keep only 20% of any real growth after inflation, and only 6% of the total business rates collected. Conversely, the Council had to meet 40% of the cost of business rate losses or reductions including 40% of the entire cost of backdated appeals (refunds) back to 2005 or 2010 where a valuation was appealed and won.

Officers have been carefully monitoring actual Business Rates collection performance during the first 2.5 years of the scheme's operation to better understand the impact on the Council's finances. It had been concluded that business rates retention produced volatile outcomes but on balance appeared to be producing real growth in the Vale. There are some significant caveats to this, not least of which was that the outstanding appeals associated with the highest value retail properties (the large supermarkets) still had the potential to significantly reduce the value of rates paid.

The Cabinet report contained information on the actual outturn for 2014/15 which showed a £0.151m gain in retained business rates. However, due to the uncertainties that had been described, the Council had to be cautious in either forecasting, or utilising any predicted gains from the business rates retention system.

An appeals reserve had been created against this inherent volatility and an appeals provision existed within the business rates collection account that could be drawn upon to smooth out the volatility. Looking forward, once the largest and highest risk appeals had been resolved, there was a high level of confidence that the Vale could produce business rate growth and then be able to draw gain from the system.

Business Rate Pooling

Aylesbury Vale, together with partner authorities, had submitted an expression of interest in pooling in each of the previous three years, only to subsequently withdraw the application due to shared concerns over the potential downside risks linked to the outstanding appeals.

The respective finance officers of the Buckinghamshire councils had again been working on the options for submitting a potential pooling application this October, although they were still awaiting for the Government to publish a Pooling prospectus for 2016/17. The situation would continue to be reported and an update provided when the position became clearer.

Council Tax Freeze Grant

A Council Tax freeze grant had been offered for each of the last 5 years to Councils that did not implement a Council tax increase. The Council's MTFP assumed the ending of core grant by 2017/18, and with it any benefit derived from accepting the freeze grant in any previous year.

The Government had not signalled it's attitude towards Council tax for this Parliamentary term but it was likely that it would continue to cap any annual increase at 2%, above which a referendum of the electorate had to be held. Because of the absence of any lasting benefit from accepting freeze grant and the massive financial challenges presented by the reductions in grant, the Council Tax strategy adopted has broadly been to increase Council Tax, at least in line with inflation, up to the Council Tax referendum threshold.

This Strategy was reviewed annually, taking into account revised assumptions around grant levels, retained business rates, the level of savings / new income generated and the anticipated impact of any reduction in service provision caused by any predicted unfunded budget gap.

Aylesbury Vale Council Tax Base Changes

The Tax Base was a measure of the number of households that were liable to pay Council Tax in the area in a given year. It also took into account the banding (size) of the property and the entitlement to discounts of the occupiers. Growth of the tax base had increased significantly above historic trends in recent years although increases in the amount available to deliver services was tempered by the increasing demands for infrastructure and services.

It was estimated that the combination of these factors would result in tax base growth in excess of 2% in 2016/17 (3% in 2015/16).

New Homes Bonus

Members were informed that the gap in funding for infrastructure and services caused by growth had in part been met by the Government through its introduction of New Homes Bonus (NHB). However, NHB funds had been created through top slicing Council's grant funding. As such, the Council was using a proportion of NHB in the revenue budget to compensate for this loss and to ensure that a standard level of service was provided to the new homes built in the Vale.

Crucially, the Council's revenue budget was not dependent on NHB (or new house building) and the vast majority of NHB was set aside for infrastructure projects sponsored by both the District and parishes. If New Homes Bonus ended, the resources tied up within the scheme would be returned to local government in the proportion with which they were contributed.

The MTFP for 2016/17 assumed a 6th NHB adjustment payment based on growth delivered in 2015/16. However, for the reasons already highlighted relating to the 'devolution revolution' reform there was a significant risk in relying on NHB monies as a part of future budget planning.

Inflation, Pay and other Economic Pressures

The Council's current MTFP assumed a gradual improvement in the economic outlook over the next few years, although the rate of inflation was likely to remain low. As a result, the assumptions for Pay and Inflation in the MTFP were, if anything, slightly overstated but would be reviewed and refined through the budget development process.

The introduction of the Living Wage was not expected to impact the Council over the MTFP period regarding the Council's workforce but the higher costs of contractors (paying the Living Wage and operating costs) would likely be passed on to AVDC through contract re-tendering exercises.

The Government's Pension reforms would also impact in 2016/17 as the National Insurance reduction for contracted out pension arrangements would end. This would mean higher National Insurance contributions and higher costs to both employers and employees. The next tri-annual pension fund revaluation would take place in March 2016 and impact on the budget from 2017/18 onwards. All of these matters had been known for some time and were factored into the MTFP.

Capital Investment

The Committee was informed that a report and information on the capital programme was included as a separate agenda item to the meeting.

Aylesbury Vale Estates

The annual Business Plan for AVE has not yet been scrutinised or approved by Cabinet. However, the financial models for the next 3 years (including the current year) were well developed and these will be used as the basis for the MTFP.

The proposed Business Plan included two scenarios, a base (or central) case and an enhanced case. The enhanced case set out higher predicted returns for the investors, but was more dependent on events not directly under AVE's control. The base (lower risk/return) case would be used for budget planning.

Returns from AVE to the Council had not grown over previous as had been expected, but this was largely due to reasons outside AVE's direct control. The Council was hopeful that the benefits and gains promised when the vehicle had been established would be realised over the coming years. Officers would continue to work with the AVE Board and the Asset Manager to achieve this and report back to Members through the budget development process.

Service Based Budgetary Pressures

As part of the budget development process a review of service based budget pressures would be undertaken. With the possible exception of waste, these were not understood to be extensive.

Savings and Transformational Efficiencies.

The Council had been committed to savings, new income generation and transformational programmes for the past few years in light of the national funding position continuing to deteriorate. These programmes were known as the "New Business Model" (NBM), with the income/savings achieved over the last five years amounting to more than £11m.

The NBM programmes were looking to developing new income streams, rationalise existing services and cease providing services that were not valued by residents.

Through this approach the Council had thus far been able to avoid crude cost cutting exercises. Around a third of the savings were being achieved from new income sources, with the remainder being from efficiencies.

The NBM had to date provided the bulk of predicted savings and been supplemented by opportunistic savings wherever possible. There was only so far that such an approach could achieve before more major structural changes were needed to achieve the further savings required by the reduction in Government grant, which was the point that the Council was fast approaching. To this end, the senior management team had developed a wholesale restructuring plan for the entire organisation, known as "Sustainable AVDC". This programme was based upon the founding elements of the NBM programme, and applied this to the entire organisation. In summary, its aim were to:-

- React to the increasingly challenging financial position of the Council.
- Deliver automated and more cost efficient forms of service delivery including self serve, aligning the Council with most of the other service providers that residents used in their day to day lives.
- Create greater value and income from more commercial operations to cross subsidise those areas of the Council which could not cover their own costs.
- Focus on the customer at the heart of everything the Council did.

In achieving these aims, a number of changes would need to be made to the way in which the Council was organised, and how staff worked. In summary:-

- overall, a more commercial approach and understanding of the Council's business needed to be taken.
- moving staff from a silo arrangements into a more generic approach to fulfilling customers' demands whilst at the same time retaining specialism where it was needed to meet customer demands.
- separating management responsibility from professional expertise, recognising that good management did not always come with specific technical expertise.
- becoming more flexible in the way the Council worked and served customers, which would enable staff, processes and the structure to be more responsive to customer demands and communities.
- widening the spans of managers' responsibilities so that they focussed more on corporate rather than departmental issues.

In its simplest form, AVDC needed to be:-

- orientated around the customer, fulfilling their demands and delivering what they want.
- providing a speedy response to customer demands, similar to commercial organisations and, more particularly when customers want it.
- Within a cost effective delivery model – at a cost that customers would pay.

To kick start and enable this change, the entire structural model of AVDC would be changing. Conceptually, the new AVDC would do away with the historical departmental structure and replace it with a five part, more flexible and universal structure based around five structural elements:-
as illustrated below:-

Structural Element	**Summary Function**	**Example Current Functions** (not exhaustive)
Community Fulfilment	Forming and Delivery of Economic, Community and Growth Strategies to deliver the long term success of the Vale	Forward Plans Strategic Housing Economic Development

Commercial	To create value and profit to sustain the delivery of services long term	Major Capital Programmes Capital Asset Management Commercial Ventures
Customer Fulfilment	To deliver repetitive and predictable services to customer as quickly and efficiently as possible	All services that are requested by customers
Business Strategy & Governance	To strategically steer and guide the development of the AVDC and its affiliates	Legal & Monitoring officer Democratic Services Audit & Compliance Strategic Finance
Business Delivery, Support & Enablement	To operationally support the council in achieving its goals	Day to day transactional support services

The new structure would enable AVDC to be far more reactive to the changes that were required for the coming years. The approach to moving to the new structure would be a three stage process:-

- "lift and shift" staff to the new structure – this would in the main be simple management realignment to move whole teams or sections into the new structure. The aim of this stage was to deliver the new structural layout of the Council as soon as possible. This was likely to take place in early 2016.

- A service review and service change – this stage would consider the work that was done in each part of the new structure, assess the level of demand, the best way to service this, the level of resources required and to deliver a refined new structure within each element of the Council. This stage would take some time to complete. Planning for these reviews would be undertaken between now and November, but indicatively it was anticipated that the review of services across the Council would extend into 2017.

- Implement the above service review changes – delivering efficiencies over the end of 2016/2017 and into 2017/2018. At this stage it was envisaged that this would reap somewhere in the order of £3m once fully implemented. It was envisaged that this would be mainly through a combination of automation, service efficiency and staff reduction.

Members would be updated as a fuller programme became clearer and where changes to staff and responsibilities were known. Whilst the above would deliver against some of the short/medium term budget pressures, there was still some way to go to deliver against the level of savings required to meet the expected MTFP.

Process for Resolving the Budget for 2016/17

It was hoped that the budget for 2016/17 could be resolved using the reorganisation and income generating strategies set out within the Cabinet report and without the need for a crude or simplistic cuts exercise. As such, work would continue on refining the budget process making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

The Council had Working Balances in excess of its stated minimum and these would allowing the Council to push forward with new invest to save initiatives or to flex savings targets from one year to the next in the event of unexpected funding pressures or new windfalls. As such, use of or adding to balances would likely form part of the strategy for balancing of the budget for 2016/17.

An initial budget position and Cabinet proposals for the 2016/17 budget would be submitted to Cabinet in December, as well as be subject to scrutiny by the Finance and Services Scrutiny Committee, before then being submitted to the February 2016 Council meetings.

Members sought additional information on the budget setting process and were informed:-

(i) that the graph on page 35 of the Committee report assumed that the Council would retain the current level of business rates, approximately £3.5m p.a., up until 2020/21, although this could be subject to change by the Government.

(ii) that AVDC currently collected £46m p.a. in business rates, of which the Council only retained £3.5m.

(iii) that AVDC had received £6.7m NHB in 2015/16 and would receive approximately £8m in 2016/17 if the current scheme continued. However, the Council was still awaiting for news over the coming months of any proposed changes to the scheme.

(iv) that there was still uncertainty as to whether councils would be given the option this year to pool business rates income in order to reduce the amount of payments (levies) as the DCLG had not published a prospectus. It was possible that an announcement on pooling would be made by the Chancellor later this year.

(v) that while it was still unclear what percentage of business rates the Council might retain under the new system, this had to be tempered against the outstanding appeals associated with the highest value retail properties as these had the potential to significantly reduce the value of rates paid.

RESOLVED –

That the planning approach being taken by the Council in developing the 2016/17 budget be noted.

5. QUARTERLY FINANCE DIGEST: APRIL TO SEPTEMBER 2015

The Committee received the report on the Council's financial performance for the period 1 April 2015 to 30 September 2015. The current position after the second quarter point of the year was that there was a predicted year-end position for an additional contribution to balances of £1.076m. Copies of the latest Quarterly Finance Digest had been circulated separately and Members referred to this document whilst considering the report.

The Council had spent £634,856 less on the provision of services during the first six months on 2015/16 than allowed in the budget. This position resulted from increased income in some areas and reduced expenditure in other areas. Page 3 of the digest outlines the main issues and showed the Top Five Over and Under Activities as well as the areas where budget holders' had re-forecast their expected outturn position due to activity changes in the second quarter.

The majority of the forecast related to reduced expenditure, mainly salary related, following a number of section reviews. The savings summarised on a portfolio basis were:-

- Economic Development delivery – salary savings of £71,000, which were offset by redundancy and agency costs of £48,000 and the cost of replacing the microphones in the Oculus, £60,000.
- Environment and Waste – within the Waste Service salary savings, £100,000, and reduced fuel costs, £100,000 have been offset by reduced recycling credits of £170,000.
- Finance, Resources and Compliance – there had been salary savings of £50,000 within the Finance and People & Payroll Services.
- Growth Strategy – £90,000 salary savings had been identified within the Development Control and Planning Services areas.
- Leader – £32,000 of savings hade been identified within the Members' Allowances budget.
- Leisure, Communities and Civic Amenities – following service reviews, salary savings of £146,000 had been realised from Housing Services, £100,000 from Leisure Administration and £115,000 from within Parks & Open Spaces. Other savings have been identified within the Grants budget, £26,000 and the Car Parking budget, £70,000. There have been some areas of additional expenditure, Community Centres, £13,000, the cost of continuing the funding of the Jonathan Play Centre, £16,000 and on Waterside Public Realm, £16,000.

As reported throughout last year, budget holders' are asked continually to review all of their areas and to reforecast their budgets both positively and negatively in order to have as accurate a year end position as possible for the December Digest.

The New Homes Bonus schedule had been updated to reflect the contribution to be received in 2015/16 and shows the commitments against the resources. Everything else remains the same as reported in the June Digest.

As well as the revenue budget the digest, on page 14, also reports the level of reserves and provisions and any movements that have been made during the quarter. So far this year there have been no transfers in or out of any reserve. For the majority of the reserves any movement tends to be in the last quarter so the position shown in this digest is not unexpected.

On page 16 there was information on the level of investments and borrowings during the second quarter. No new long term borrowing had been taken out during the quarter so the current level of borrowing remained at £28.5m.

The council had £47.25 million invested at the end of the quarter, which was split between banks, UK and foreign, Building Societies and MMF (Money Market Funds).

RESOLVED –

That the content of the Quarterly Finance Digest for the period April to September 2015, be noted.

6. TREASURY MANAGEMENT - MID YEAR UPDATE

The Council had agreed the Treasury Management Strategy for 2015/16 and the Action Plan for monitoring performance against the strategy in April 2015. The authority's Treasury Management Policy required a mid year report to be brought to scrutiny prior to going to Council. This met the needs of the Prudential Code by ensuring the capital programme and other indicators were monitored.

The objectives and main activities for the Treasury Management team for 2015/16 in monitoring the Action Plan were:-

- To maintain the security of the Council's deposits by only depositing with trusted financial institutions and limiting the size and length of deposit with each organisation.
- To directly manage a range of deposits in order to provide sufficient flexibility to meet day to day operational needs.
- To only undertake new long term borrowing where justified by a business case.

The underlying economic environment for the Council remained difficult, foremost because of the continued challenging concerns over counterparty risk. This challenge encouraged the Council to continue maintaining investments short term (less than six months) and with as high a quality counterparties as possible. The downside of such a policy is that investment returns remain low.

The Bank of England had elected in October 2015 to keep interest rates at 0.5%, with any predicted rise not now happening before June 2016, and then rates would only rise very gradually.

Inflation had also continued to fall below the Government's 2% target and was unlikely to return to 2% until early in 2017. The headline figure, CPI, fell to 0% in August from 0.1% in July. This was mainly due to a fall in oil prices since the start of the year.

The 2015/16 revised budget for capital expenditure was significantly higher than the 2015/16 original budget. The majority of the increase was the carry forward of the underspend on the University Campus Aylesbury Vale (UCAV) of £6.42m and the second phase of the depot alterations of £1.83m. The increase was also due to the Swan Pool Improvement scheme that had been agreed after the capital programme had been last approved.

The additional expenditure would be financed either from capital, revenue or borrowing reserves as follows:-

Financing	Original – £'000	Revised – £'000
Capital receipts	1,321	5,418
Capital grants	645	2,229
Capital reserves	0	0
Borrowing	0	6,419
Total	**1,966**	**14,066**

Another prudential indicator was the Council's Capital Financing Requirement (CFR). This was a measure of the Council's underlying need to borrow. The CFR did not increase indefinitely, as the minimum revenue provision (MRP) was a statutory annual revenue charge which broadly reduced the borrowing need in line with assets life. The latest CFR projections were:-

CFR	Original - £'000	Revised - £'000
Total CFR	44,985	37,365
External Borrowing	28,418	23,418
Under/(Over) Borrowing	**16,567**	**13,947**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget would have an ongoing impact on investments unless resources were supplemented each year from new resources (asset sales).

Estimates of the year end balances for each resource and anticipated day to day cash flow balances were:-

Year End Resources	2015/16 Original - £'000	2015/16 Revised - £'000
General Fund balance	3,332	3,115
General Fund reserves	27,766	25,835
Revenue provisions	1,816	1,816
Capital receipts	9,609	3,816
Other	1,267	1,267
Total Core Funds	**44,223**	**35,849**

Members were also informed that AVDC was no longer debt free with loans ranging from 5 to 36 years having been taken to fund the capital programme. A short term loan was due to be repaid in December 2015. The actual external debt was split between the Public Works Loan Board (£18m) and from other local authorities (£5m revised, versus the original estimate of £10m).

The Council was maintaining an under-borrowed position. This means that the Council's borrowing need had not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow had been used as a temporary measure. This was considered a prudent strategy as investment returns were low and counterparty risk was relatively high.

In accordance with the Code, the Council's priority was to ensure the security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite, despite having to operate in a difficult investment market with historic low interest rates.

During the year new regulations had lowered the likelihood of Government (sovereign) support in the event banks get into trouble in the future. The result of this was that a large number of banks saw their credit rating lowered, not due to their underlying credit position but due to regulatory reform and revision by credit agencies. Resultantly, some of the Council's minimum credit ratings no longer apply, as most banks, both UK and foreign, were no longer AAA rated. It was, therefore, recommended that the minimum rating for UK and Foreign banks be set at AA.

The strategy currently sets a maximum investment period of 364 days which was sufficient for the current interest rate regime. However, it was possible that a particular investment opportunity could arise that would benefit from a longer period. It was recommended that the maximum investment period be increased to three (3) years. The Council held £47.25m of investments as at 30 September 2015 spread over the following counter party groups.

Counter Party Sector	Country	£'000
Banks	UK	16,000
Banks – Overseas	Sweden	2,000
Building Societies	UK	23,000
Money Market Funds	UK	6,250
Total		**47,250**

It was expected that the interest target for the year will be met. The budgets and income to date for the interest received from all investments, fixed term, variable and MMFs were detailed as follows:-

Investment Interest	2015 - Original	Received to 30 September	2015 - Revised
Income – Fixed Term	£215,000	£84,312	£200,000
Income – Variable	£18,000	£16,205	£33,000
Total	**£233,000**	**£100,517**	**£233,000**

During the year a couple of 'Notice Accounts' have been opened with Handelsbanken and Santander UK, one a 35 day notice and the other a 95 day notice. These currently offered slightly higher interest rates than the MMFs and some longer term fixed investments so it was hoped that more variable rate interest would be generated.

No consideration had been made of investing in a property based fund. Although, the returns are currently higher than normal investments, any investment would have to be for a minimum period of five (5) years in order to maximise the return.

Members sought additional information and were informed:-

(i) that while a large number of banks had seen their credit rating lowered from a AAA rating to a AA rating this had not been as a result of their underlying credit but due to regulatory reform and revision by the credit agencies. As such, the council would not be exposing itself to greater risk by investing with these banks.

(ii) that it would only ever be the intention to lock up a small percentage of overall investments for period up to 3 years.

(iii) that the council had undertaken some risk assessment on the new 'bail-in' arrangements with the council's credit advisers and could include information with future Finance Digests.

(iv) that while investments in property based funds would offer the council greater returns, there was also the risk of making losses if property prices fell.

RESOLVED –

(1) That performance against the Treasury Management Action Plan for 2015/16 be noted.

(2) That council be recommended to approve the minimum rating for Foreign Banks which may be used at 'AA' and to increase the maximum investment period from one year to three years.

7. WORK PROGRAMME

The Committee considered their work programme for the period up until April 2016. It was agreed that the date of the next meeting should be changed from Monday 14 December, 2015, to Thursday 17 December, 2015.

The agenda items for future meetings would be:-

(i) 17 December 2015 meeting
- Budget Scrutiny – Cabinet's initial budget proposals for 2016/17.

- Public Sector Equality Duty.

(ii) 8 February 2016 and 5 April 2016 meetings
No items as yet.

RESOLVED –

That the work programme be agreed, as discussed at the meeting.