FINANCE AND SERVICES SCRUTINY COMMITTEE

4 OCTOBER 2016

PRESENT: Councillor M Rand (Chairman); Councillors J Bloom, J Chilver, A Huxley, S Lambert, E Sims, M Smith and M Winn. Councillors Mordue and Sir Beville Stanier attended also.

APOLOGIES: Councillors B Everitt and M Stamp.

1. MINUTES

RESOLVED –

That the Minutes of the meeting held on 11 July, 2016, be approved as a correct record.

2. BUSINESS RATES

The Committee received a report which provided an explanation of the business rates system and which covered issues including how Councils gained from it, how it might change in the future and how it was used to support local businesses.

Business rates were a tax based on property values and helped pay for public services. Business rates were charged on all non-domestic properties (e.g. shops, offices and factories) that did not qualify for an exemption and were normally payable by occupiers of premises, rather than owners. However, where properties were empty, the property owner might be liable for business rates. Business rates in England raise around £24 billion a year from around 1.8 million non-domestic properties.

Business rates were calculated according to a property's 'rateable value' which was set by the Valuation Office Agency (VOA) for each non-domestic property in England. This was an amount equal to the annual rent for which it was estimated a property might be let at a set date. A business rates bill was worked out by multiplying the rateable value of a property (set by the VOA) by the business rates multiplier (set by central government) and then applying reliefs the ratepayer was eligible for, which could include transitional relief.

The system of mandatory reliefs was determined by central Government and currently gave 80-100% relief to charities and small businesses. The system of mandatory reliefs had recently been used to extend reliefs to other organisations in accordance with Government policy objectives, such as smaller retail properties and empty shops.

The valuation date was currently set at two years before the revaluation comes into effect. This allow the VOA time to collect rental evidence, prepare valuations and consult with ratepayers. It included six months for ratepayers to check their rateable value and prepare for changes to their rates bills. This approach ensured rateable values were based on evidence and ratepayers were given advance warning of changes to rates bills.

Revaluations normally took place every five years with a purpose of aligning rateable values with current rental values set by the market. As a result, revaluations reflected relative changes in the rental value of property between different sectors and locations, so that the total business rates bill was shared fairly across ratepayers.

A revaluation did not raise any extra revenue but aimed to redistribute the amount businesses pay based on changes in the rental market i.e. rises and falls in the rental

value of the property. To maintain the revenue raised through business rates at roughly the same amount when rateable values were changed at valuation, the government adjusted the business rates multiplier (the tax rate) either up or down. If the rateable value of a property falls by more than the national average at valuation, the rates bill for that property will see a decrease. However, if a property's rateable value falls by less than the national average, its rates bill would increase.

The most recent revaluation had come into effect on 1 April 2010 and was based on rateable values set at 1 April 2008. In 2012, the government postponed the revaluation due in 2015 until 1 April 2017 in order to provide greater stability for businesses during a period of economic difficulty. The next revaluation was currently underway and would come into effect in April 2017.

The Current System

On 1 April 2013 a new system of business rates retention (BRR) had begun in England to reward local authorities for increasing and supporting the businesses in their area. Local authorities were now able to retain up to 50% of the income they collect from business rates, with the remaining 50% retained by central government. In order to equalise between areas with different amounts of business rate income there was a system of top ups and tariffs in place.

Because Business rates were mainly collected by lower tier councils (districts) but grant was mostly required by upper tier councils (counties) most districts handed over most of the business rates they collect in the form of 'tariffs', whilst most counties receive 'top-ups'. Under the previous system, local authorities collected and paid all business to the Treasury who then redistributed the monies back via a formula known as formula funding.

The current system allowed for councils to benefit from the economic growth in their areas and incentivised them to promote business growth generally. Equally, councils lost resources from under investment which resulted in businesses closing or relocating outside of their areas.

Most Business Rates under the current system were still either captured by central government or redistributed nationally within local government as a whole. Locally, Aylesbury retained somewhere in the order of 6% of the £50 million of business rates payable in the area. However, at the margins of the system Aylesbury Vale was allowed to capture 40% of new growth above a baseline determined annually by Government and lost 40% of any reduction in business rates below that baseline.

Councils with business rates growth were further required to pass an additional half of their 40% growth share to central Government in order to provide a safety net fund to protect those councils which lost more than 7.5% of the business rate income in any year. Therefore, the effective rate of growth retention at the margin was only 20%.

There were opportunities within the current system to retain larger shares of growth locally through mechanisms such as Pooling and through Enterprise Zone designation. The system, whilst offering some financial incentive to promote economic growth within an area was complex and fraught with risks to the income streams over which local authorities had only limited control. These shortcomings in the current system might be identified as:-

- The valuation appeals system.
- The marginal level of gain.
- The distribution of rewards and risk between the tiers of Government.

- The risks in the system represented by major employers.
- Resets in the system and the short period over which gains are retained.

The Government confirmed in the Autumn Statement 2015 that it intended to move to local Government retaining 100% of their business rates by 2020. In the face of only limited gain under the existing system this was broadly welcomed. However, there were significant challenges inherent in designing such a system which needed careful consideration and modelling before a detailed design could be produced. The Government was currently consulting on these principles with a view to designing a detailed scheme for consultation later this year.

The key areas of discussion associated with the proposals were as follows:-

- Retained Business Rates would in future form (almost) the only means of funding local government and core funding (Revenue Support Grant) would end. It would be important to ensure that each council started with a level of resources proportionate to their relative needs. This would require a new system of assessing what was a fair baseline for distributing funding across the Country. This would likely be divisive as councils disagree on whether their unique characteristics were fairly reflected in the new system.

- The value of Business Rates (£24bn) was far greater than the support Government currently provided to councils (£12bn) and so the Government would likely seek to transfer its funding responsibilities to local Government by an amount equal to the gain. The responsibilities and controls that might be handed to local Government were still to be determined.

- The current risk reward share between counties and districts, which was weighted 80:20 in the favour of Districts, was not reflective of the dependency on grant between tiers of local government and would also need to be reassessed.

- While Councils would have the ability to reduce the amount of business rates payable by up to 100%, only those with an elected Mayor would be able to increase Business Rates within their area and by a maximum of 2%. It would need to be determined in two tier areas (where business rates were shared) who would gain or lose from these decisions.

- The period of resets and revaluations would be key in determining who benefits and loses from business rate gains and reductions, and for how long.

- Whilst the proposals reflected what local government had long requested, i.e. full autonomy over the resources it collected, the high level and detailed design of the new system would heavily influence each councils' ability and the extent to which they actually benefitted in practice.

The Council's Ability to provide assistance to local businesses

The current system and the uncertainty about the future system placed constraints on Council's ability to support local businesses. The future system, whereby councils retained 100% of business rates, might give greater freedom to Councils in designing systems of support and relief to businesses but it would still be a national system and any freedoms would inevitably be curtailed by the Government's desire to exercise its own policy agenda.

However, the existing system, did give significant support to certain types of business. For example, all charities received 80% mandatory business rate relief and most small businesses were exempted from all business rates liability thanks to an extension and

expansion of the current Small Business Rates Relief threshold. A summary of the different types of relief that were available were explained, as detailed below. Councils were allowed to provide support beyond this but it would be entirely at their own cost.

These types of relief included:-

(a) Mandatory and Discretionary Charitable Relief – this could reduce the business rates liability of most clubs and charities to 20%, with the associated costs of this shared in proportion with those that receive shares of the collected business rates. The value of Mandatory Relief awarded in Aylesbury Vale was nearly £5m per annum

The Council also ran a discretionary rates relief scheme for clubs and charities that struggled with the residual 20% of their business rates liability. Further information on the eligibility and scoring criteria for this were included at Appendix A to the Committee report. The current cost to the Council of discretionary scheme was £338,000.

Charity shops (providing they sold donated or third world goods) were entitled to 80% mandatory rate relief. This encouraged landlords of empty shops who had to pay 100% rates after a 3 month exemption to let to charities. In some areas this created a perceived issue with agglomerations of charity shops.

(b) Small Business Rates Relief – over recent years (in line with the Government's policy objectives) the business rates liability for small businesses (with a rateable value of up to £6,000) had been reduced from the basic level of 50% relief to 100%. They amount of relief available had also doubled to business with a rateable value between £6,001 to £12,000 which was calculated on a sliding scale. This specific policy initiative had removed the majority of businesses in the Vale, as the area had a strong base of smaller and rural businesses.

As the Government had to date compensated councils for the cost of extending this policy, the extra relief was generally welcomed. When taken in conjunction with mandatory and discretionary rates relief, the majority of clubs, charities and small businesses were excluded altogether from any business rates liability.

(c) Reoccupation Relief and Retail Relief – similarly to the extension of Small Business Rates Relief, the Government gave a new relief to Retail businesses (with a rateable value of under £50,000) worth £1,000 in 2014/2015 and £1,500 in 2015/2016. At the same time it had introduced Reoccupation relief of 50% to businesses which were taking occupation of premises which had been empty for up to 2 years. Both reliefs had ceased from 31 March 2016, with any costs fully refunded to the Council.

(d) Hardship Relief – there were fewer mechanisms to support businesses that fell outside the Mandatory and Discretionary relief systems. While the Council was empathetic to businesses such as rural pubs, community shops and independent retailers, it had no means to offer relief within the business rates system and only a small budget, (£2,000), with which to support them directly. The application form for applying for such relief was included at Appendix B to the Committee report.

If the Council had greater resources to support such businesses then it would need to agree on an open and transparent policy to decide on applications. Any such policy would be problematic because of the subjectivity as to which requests were worthy and which weren't. The issue was further complicated by the fact that the Council could not subsidise the operating costs for one business

and give it a competitive advantage to the detriment of others. This would leave the Council open to accusations of fairness and possibly subject to challenge.

Enterprise Zones

The existing system of business rates provides for the designation of areas as Enterprise Zones. Subject to the necessary governance arrangements being put in place the Government would allow councils to keep all business rates collected in the Enterprise Zone areas for 20 years, provided that they were re-invested in the infrastructure and creation of jobs in those areas.

The Government also allowed business rates to be reduced to zero for any businesses in those areas for a maximum of 5 years and not to exceed £125,000. The Government fully reimbursed councils for the cost of any business rate reductions given. This created a powerful incentive for these areas in attracting new businesses into the Zone.

Enterprise Zones were usually created around a specific theme or sector and businesses were attracted which fitted into that criteria. The discounts on offer were managed in such a way so as not to encourage displacement of existing businesses within the local authority area, but instead to attract new employment into the area as a whole.

Last year (2015/16) Aylesbury Vale in partnership with Bucks LEP and Bucks CC had been successful in gaining the designation of 3 Enterprise Zone areas. These are at Silverstone, Westcott and Woodlands.

Members sought further information and were informed:-

(i) that AVDC currently received approximately £3.5m annually in business rates, plus £200,000 as a proportion of rates growth, against a base revenue budget of £17.5m.

(ii) that the majority of business rates in the Vale were generated from larger urban areas and business parks. Some of the business rates income received by the Council would be used to provide services across the District, including in rural areas, but it was not believed that this was unfairly skewed.

(iii) that based on current rental values it was likely that 55% of business properties would have a rateable value of less than £12,000.

(iv) that it was likely that the new business rates system would provide for qualifying businesses to get rates relief for up to 5 years, which would give them greater certainty for their business planning. It was also likely that the small business rates relief threshold would be increased from £18,000 to £51.000 (Rateable Value).

(v) that each Enterprise Zone had a governing board who had decided that business rates relief would not be offered to organisations who moved to zones from within the Bucks area. Enterprise Zones such as those at Silverstone and Westcott would also be selective and look to attract businesses related to their particular specialist sectors.

(vi) that, unfortunately, there were still a large proportion of business rates appeals that had not been finalised. Some of these dated back to 2010. The new system would be putting measures in place to try and ensure that rateable values were correct from the start of the scheme. Where a business appealed

against a rateable value then they had to provide information to substantiate their claim.

(vii) that further thought would need to be given when developing the new scheme on how rates discounts were apportioned between local authorities in two tier areas.

(viii) that Business Rates Inspectors were proactive and regularly visited Business Parks such as Westcott to ensure the Council was aware of business operating on these sites.

(ix) that AVDC had spoken to the County Council about the weighting of business rates distributed in Bucks. However, any new distribution formula for the new system would ultimately be decided by the Government.

(x) that AVDC was allowed to net off some of the business rates collected to recompense the Council for operating the Business Rates team. AVDC's team was one of the best in the country and had consistently been one of the Top 10 collecting local authorities in the country.

RESOLVED –

(1) That the Rating and Recovery Manager be thanked for attending the meeting and explaining the business rating system to Members, and also be congratulated on his team's performance over a number of years.

(2) That the position regarding the current business rates system and its operation, and on the emerging new scheme be noted.

3. CAPITAL PROGRAMME (DEPOT DEVELOPMENT AND NEW FLEET)

The Committee received a report, that would be submitted to Cabinet on 11 October, 2016, for consideration, on the business needs and benefits of redeveloping the waste and recycling depot at Pembroke Road and the capital investment required to put in place the infrastructure necessary to meet the regulatory and growth needs of the Vale. The report also covered a proposal for replacement of the vehicle fleet. In relation to both issues, a schedule showing the projected rate of return was submitted as part of the confidential agenda.

The need to redevelop the depot was driven by the following factors which were detailed fuller in the report:-

- The need to address health and safety risks.
- The need to address environmental risks.
- Operational improvements.
- The need to accommodate the growth of the District.
- Existing disrepair.
- Income generation and development costs.
- Fleet procurement.

The Pembroke Road development would provide a mid term option to accommodate around ten year's growth. The depot design was submitted as part of the Cabinet report. The total capital cost of the full redevelopment was circa £9.2 million, including professional fees and a contingency.

The depot design had been costed in two parts – option 1 and option 1a. This would allow for a review towards the end of the 18 months development project to re-evaluate the needs of staff parking and complete build of the bulky waste storage shed, provide

the necessary highways changes to manage vehicle access to the site and improve sight lines on the chicane roadway. Also this would allow some income generation to continue from existing tenants in two of the units in Pembroke Road until their lease expired in late 2018.

The Cabinet report included a full budget breakdown, but the following was a summary of the net revenue impact of the capital loan:-

Option	Loan amount	Loan period	ROI	Net revenue burden Year 1
1a	7.3 million	10	Year 5	274,700
1	9.2 million	10	Year 10	489,300

In November, 2011, approval had been given for the refurbishment of Pembroke Road and for negotiations to be commenced with Aylesbury Vale Estates (AVE) in relation to a land transfer (from AVE to AVDC). These negotiations had been suspended temporarily while the Council reconsidered its position with regard to its longer term waste strategy and possible alternative locations for a waste transfer station and vehicle depot. However, after an extensive period of research and the development of a business case for an enhanced vehicle maintenance workshop, Pembroke Road had been identified as the most suitable location for the Council's mid term needs (ten years).

Pembroke Road had been acquired from AVE in July, 2016 and work had been underway to produce a layout and costings. Pembroke Road was primarily a vacant site and many of the existing units were in a state of disrepair. The existing tenancies had been factored into the phasing of the depot redevelopment.

The investment proposals for Pembroke Road required a Capital Programme provision of up to £9.2 million, of which £1.9 million would only be required if there was sufficient evidence of the demand and take up for the expanded vehicle testing facilities included within the proposal. The business case was predicated on all the required resources being borrowed, with the repayment cost being borne by the General Fund.

The proposal to purchase rather than lease the new refuse freighter fleet would require a further £3.6 million (subject to full OJEU procurement). The savings from this proposal (borrowing costs being lower than leasing costs) would help to mitigate the revenue repayment costs of the borrowing.

The estimated net annual revenue repayment costs for the two combined schemes initially amounted to £489,000 per annum, but would reduce over time as the borrowing was repaid. Crucial to the business case and assumed within the net revenue cost above was £364,000 of savings from the internalised maintenance and income from expanding vehicle testing and MOT operations. If not achieved as projected, this would increase the net revenue cost to the organisation. The Capital Programme therefore required provision £12,860,000 funded by new borrowing and £489,300 in the revenue budget for 2017/2018.

These sums might potentially be reduced when a review of capital resources took place later this year as part of budget setting. This might identify unallocated capital resources which could be allocated to this scheme in lieu of borrowing. However this could not be guaranteed, hence approval being sought for the maximum borrowing requirement.

Members sought further information on the proposals and were informed:-

(i) that the business case had looked at the future benefits of purchasing vehicles versus leasing them, taking into consideration issues such as the benefits on cash flow of leasing, and had evaluated that fleet ownership was a cheaper and better option. It was also noted that the current arrangements for leasing refuse vehicles did not include maintenance cost which had to be met by the Council and that vehicle procurement would be staggered over time as some of the current refuse vehicles would not need to be replaced for another 2-3 years.

(ii) that the Council was in discussions with a current Pembroke Road tenant to assist in finding an alternative local property for relocating the business.

(iii) that an Enhanced Vehicle Maintenance Workshop providing vehicle testing and MOT operations would have the dual benefit of allowing the Council to maintain its own vehicles (there was a severe lack of HGV MOT/maintenance facilities in the region), and to provide a revenue stream from other businesses using the facility.

(iv) that the estimated net annual revenue repayments for the two combined schemes would initially amount to £489,000 per annum, but would reduce over time as the borrowing was repaid. The repayments could also potentially be less than forecast if better income revenue could be achieved from the Enhanced Vehicle Maintenance Workshop.

(v) that the proposals would not lead to a net gain in vehicles movements to/from the Pembroke Road depot during the next 10 years. While there would likely be an increase in refuse vehicle movements over time, this would be negated by the reduction in vehicle movements to/from companies currently located in the Pembroke Road industrial estate that would move to other locations.

(vi) that the Council had considered a number of alternative suitable locations for a Waste Transfer Station and vehicle depot, but the current Pembroke Road site had been most suitable. This was because it was located near to the largest population centre (particularly important when collecting recyclables due to the space they took up when being collected) and the cost of providing for a new depot at a new site would likely cost £25m plus the cost of purchasing land.

(vii) an explanation was provided of the work that had been done to mitigate future flooding. AVDC had invested heavily in works during the last few years and the County Council had also provided flooding attenuation as part of the recent Stocklake highway improvements. As the site expanded all potential higher danger contaminants would be located to the highest point on the site. It was still uncertain how the Environment Agency would view these measures but a sizeable contingency of £800,000 had been built into the programme to deal with any issues.

(viii) that while the income revenue figures in the business case for an Enhanced Vehicle Maintenance Workshop were conservative, every attempt would be made to maximise revenue in line with the Council's aspirations of operating as a commercial organisation.

(ix) that the new refuse vehicles would meet Euro 6 emission standards, which would be an improvement on the Euro 5 standards met by the current fleet. Given that many of the fleet had to travel up to 160 miles per day it was not appropriate to operate electric vehicles. Electric vehicles were also far more expensive to purchase.

(x) that while the expanded Pembroke Road site would not be big enough to operate as a secure lorry park for HGVs, AVDC was investigating how such a facility might be provided for in the District.

(xi) that, subject to Council approval, borrowing would be negotiated through the Government's Debt Management Office (Public Works Loan Board) which was currently offering loans to local authorities at historic low interest rates. It was the Council's policy to borrow money at fixed rates.

Following consideration of the report and the business case in the confidential part of the agenda, it was –

RESOLVED –

That the scrutiny committee was supportive of the scheme and proposals for the Council to approve a capital budget of up to £9.2m for option 1 and option 1as referred to in the Cabinet report / business case, for the infrastructure development of the depot and the fleet replacement programme.

4. QUARTERLY FINANCE DIGEST (JUNE 2016)

The Committee received the report on the Council's financial performance for the period 1 April 2016 to 30 June 2016. The current position after the first quarter point of the year was that there was no change predicted in the year-end position, which was for a contribution from balances of £91,000. 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 £90,900 less on the provision of services than allowed in the budget. There were a few areas where spend was more than currently budgeted:-

- Town Centre Properties where a Retail Investment Strategy had been commissioned for the Exchange Street North properties.
- Reactive Maintenance property costs had been more than expected.
- Legal Services – first quarter contract costs with HB Law had been higher than budgeted.
- Design and Conservation – higher salary costs had been incurred due to a redundancy.
- Chief Executive's section – extra costs relating to the LGA Conference, training and consultants.

Areas that were currently under budget included Development Control and Building Control (who had seen an increase in income). There had also been savings in the maintenance costs of the refuse vehicles and for the Kingsbury water feature.

In line with previous years, budget holders' were 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 September Digest.

Although there was no real change in balances as a result of the revenue position, there was a change due to the Commercial AVDC Change project. The original budget was for a use of balances of around £600,000 but this has been revised to £946,000 following a report to Council on the 18 May 2016. This agreed to an extra £506,000 use of balances for the project but it is envisaged that only £350,000 will be spent this financial year.

As well as the revenue budget the digest, on page 13, reported the level of reserves and provisions and any movements that have been made during the quarter. During this quarter there had been no movement in reserves and so the balance remained at £32.1m. As in most years reserve movements tended to be in the last quarter so the position shown in this digest was not unexpected.

Page 15 of the Digest included information on the level of investments and borrowings during the first quarter. No new borrowing has been taken out during the quarter and so the current level remains at £23.5m. The next repayment was not due until May 2018. The council had £56.0m invested at the end of the quarter, in a combination of banks, building societies and money market funds.

RESOLVED –

That the content of the Quarterly Finance Digest for the period April to June 2016, be noted.

5. WORK PROGRAMME

The Committee considered their work programme for the period up until February 2017.

The agenda items for future meetings would be:-

(i) 1 December 2016 – Budget scrutiny, Public Sector Equality Duty, Quarterly Finance Digest.

(ii) 9 January 2017 – further budget scrutiny (if required).

(iii) 6 February 2017 – no items as yet.

RESOLVED –

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

6. EXCLUSION OF THE PUBLIC

RESOLVED –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act.

7. CAPITAL PROGRAMME (DEPOT DEVELOPMENT AND NEW FLEET)

In reaching the decision referred to above in connection with the Capital Programme (Depot Development and New Fleet), consideration was given to the confidential financial information relating to the business case.