

BUDGET PLANNING 2019-20

1 Purpose

- 1.1 The Scrutiny Committee is asked to consider this report that was submitted to Cabinet on 20 November 2018. It sets out the high level issues facing the Council when developing budget proposals for 2019/20 and in terms of updating its Medium Term Financial Plan (MTFP). The views and comments of the Committee will be reported back to Cabinet so that they can be taken into consideration in developing the 2019/20 budget.
- 1.2 The largest and most significant issue being the announcement of a single Unitary District Council for Buckinghamshire. With the Secretary of State having only just made the announcement, this creates far more questions than answers. The most immediate question being, over what planning timeframe should the budget now be considered?
- 1.3 The report sets out a proposed timetable in order to agree the budget and set the Council Tax prior to the end of February 2019, but the approach may need to be revised in response to the emerging position on unitary.
- 1.4 When the report was considered by Cabinet on 20 November, 2018, the Cabinet was:-
- asked to consider the report and agree the approach proposed for developing the 2019/20 budget and the Medium Term Financial Plan.
 - recommended to agree to repurpose the Business Rates Equalisation Reserve and the Interest Equalisation Reserve in order to provide the Council with initial financial capacity to respond to the costs of reorganisation.
- 1.5 A further report on the budget process and proposals for 2019/20 will be submitted to the Scrutiny Committee in January 2019.

2 Recommendations/for decision

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| 2.1 | The Scrutiny Committee is requested to indicate any comments that it wishes Cabinet to take into consideration concerning the 2019/20 budget. |
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3 Supporting information

- 3.1 The current Medium Term Financial Plan (MTFP) for 2019/20 was agreed by Council in February 2018. This predicted the need to deliver £1.1million of savings (which had been identified) in order to balance the budget for 2019/20. This was based upon the information available at that time and a set of assumptions around key variables within the budget.
- 3.2 These key assumptions will be revisited and reviewed as part of the budget planning and preparation process for 2019/20 and for the 4 years thereafter, which make up the Medium Term Planning period (although the Medium Term aspect might quickly become irrelevant other than for the purposes of benchmarking the financial performance of the new organisation beyond its creation in 2020).
- 3.3 Largely ignoring the implications of unitary at this stage, this report sets out the context for 2019/20 budget planning and outlines a series of high level issues facing the Council when developing budget proposals and updating its Medium Term Financial Plan (MTFP). In addition to unitary, there remain a

number of other key uncertainties in relation to e.g. Brexit, financial impact from retained business rates, funding levels in relation to Government Grant and level of New Homes Bonus. These issues are explored further as part of this budget report.

- 3.4 The Chancellor delivered the 2018 Budget on 29 October 2018. There were a number of tax and spending announcements of relevance to local government, and the Chancellor outlined the trajectory of overall public spending for the 2019 Spending Review.
- 3.5 The Chancellor indicated that “austerity” was coming to an end and the UK economy was entering into a period of economic growth. Predictions are that public spending will increase by 1.2% year on year in real terms, and this will be a fiscal stimulus to the economy generally. There are potentially a number of underlying risks to delivery of the revised forecast including the impact of Brexit and any changes to the economy.
- 3.6 The Chancellor’s Autumn Budget promised more funding overall for public spending. However, the majority of the additional funding will be targeted to meet NHS service demands, with other Departments likely to bear the brunt of continuing financial pressures and funding reductions. It is therefore reasonable to assume that Local Government will continue to see ongoing reductions in funding over coming years and this should remain the central planning assumption.
- 3.7 The Budget also set out a number of initiatives which will impact on local government funding. These include:
 - 3.7.1 The Budget builds on previous reductions in business rates. Small retail businesses will see their business rates bills cut by a third for two years from April 2019.
 - 3.7.2 From April 2019 the National Living Wage will increase from £7.83 an hour to £8.21.
 - 3.7.3 Increases to work allowances for people claiming Universal Credit
 - 3.7.4 People will also receive extra help as they move from their existing benefits to Universal Credit and there will be targeted support for people repaying debts.
- 3.8 As part of the budget setting process for 2019-20, the financial impact of the announcements will be considered and reflected in the proposals to Cabinet in December 2018.
- 3.9 A report of the National Audit Office (NAO) in March 2018 has reported that local councils have seen their central government funding halved in the era of austerity and these changes in funding arrangements and new pressures on demand have created both new opportunities and further pressures for the sector. The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term.
- 3.10 Local Government, and most of the public sector, has been managing the consequences of the Government balancing the public sector funding equation over the last 7 years, whilst at the same time managing the expectations of residents.

- 3.11 Local authority spending power comes from three distinct cash-flows: a central government grant, locally retained rates, and council taxes. The first is being reduced. Plans to allow councils to keep all the money raised from local business taxes are under review and meanwhile, there is a cap on rises in council tax.
- 3.12 AVDC have managed substantial funding reductions since 2010-11, but financial pressures continue with reduced funding at a time when the authority faces a range of new demand and cost pressures.
- 3.13 The significant work undertaken by the Council under the wider transformation agenda to deliver the efficiencies, savings and new income generation required in the Medium Term Financial Plan should again mean that the budget process can be condensed. This should be achievable, as any strategic choices relating to the level or means of service delivery have already been debated and scrutinised throughout the year and therefore are not required to be agreed as part of the budget development process.
- 3.14 The extensive and innovative reorganisation, income generation and efficiency work carried out by the council over the past 6 years has enabled the council to approach budget setting avoiding the need to present members with multiple, equally unpalatable choices around service cuts. This has minimised the amount of decision making required as part of this annual refresh and update to the Medium Term Plan.
- 3.15 This 'head-on' approach adopted by Aylesbury Vale District Council has placed the council in a strong and financially sustainable position facing the future. Whether this benefits the residents of Aylesbury Vale, or the residents of a wider new successor authority, the work has been a valuable and bold response to public sector austerity.
- 3.16 This report identifies some of the key issues and areas which will need to be considered as part of the review and update process this year and sets out the timetable for scrutinising and agreeing the budget and Medium Term Financial Plan for the next 4 years.

4 Timetable

- 4.1 The proposed process broadly follows the same format as in previous years and is set out below.

Meeting Date	Meeting	Possible Reports
20 th November	Cabinet	Scene Setting Report
27 st November	Budget Seminar	Consideration of Scene Setting / Grant Changes
18 th December	Cabinet	Initial Budget Plan / Strategy
10 th January	Finance Scrutiny	Consideration of Cabinet Report
14 th January	Cabinet	Budget Recommendation to Council
24 th January	Budget Seminar	
6 th February	Council	Budget Setting
27 st February	Council	Council Tax setting

- 4.2 The government has announced that it is aiming to publish the Provisional Finance Settlement on 6 December 2018.
- 4.3 The Government have also indicated that they are to end the frustrations of the past and inform Local Authorities of settlements on a set date. The change is intended to help local authority's better deal with future challenges

on the changing financial landscape. The Government will now aim for future provisional settlements to be on or around 5 December and the final settlement to be no later than 31st January.

5 Government Funding and the Wider Landscape

5.1 The 2015 Spending Review outlined a multi year settlement offer for local Government, which 97% of all councils accepted. The Settlement for 2019/20 represents the final year of this settlement.

5.2 The figures contained within the settlement are set out below;

	2016-17 £M	2017-18 £M	2018-19 £M	2019-20 £M
Settlement Funding Assessment	5.22	4.30	3.83	3.26
of which:				
Revenue Support Grant	1.57	0.58	0.00	0.00
Baseline Funding Level	3.65	3.72	3.83	3.95
Tariff/Top-Up	-16.16	-16.47	-16.96	-17.50
Tariff/Top-Up adjustment				-0.69

5.3 Local authority funding in England has undergone considerable upheaval in recent years. Central government grant funding has been substantially reduced; after falling in real terms to 2015, council tax has begun to rise; and new grants have been introduced in response to claims of a 'crisis' in social care funding.

5.4 For AVDC, reductions to grant funding have been the most significant factor underlying historic planning assumptions and the Council's strategy for balancing its budget was predicated on this continuing. In this respect, the Strategy around commercialism and efficiency has been proven to be the right strategy to deal with the financial challenges that it has faced, and will continue to face the Council, or its successor.

5.5 Back in November 2017, the Secretary of State for Communities and Local Government announced a formal consultation on a review of relative needs and resources (A Fair Funding Review). The current formula of budget allocations has been in place for a number of years, but the Government believes a revised distribution methodology is required to allow authorities to meet the challenges of the future.

5.6 A new system, based on its findings, will be introduced in 2020/21 alongside a Government wide Comprehensive Spending Review.

5.7 The Fair Funding Review will affect how funding is allocated and redistributed between local authorities from 2020 onwards. It is expected to use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services.

5.8 How this will be done has still to be confirmed and will be the subject of further consultation between now and mid-2019; and it will also be influenced by discussions within a number of joint working groups between the Ministry of Housing, Communities and Local Government (MHCLG) and the Local Government Association (LGA). 'Indicative numbers' for funding allocations to individual councils are to be available by spring-summer 2019, and the review is to be implemented in April 2020.

- 5.9 Alongside the new methodology, in 2020/21, a new phase for business rates retention programme will also be introduced. The aim is for local authorities to retain 75% of business rates growth from 2020/21, and this is intended to be a lever and incentive for local authorities to grow their local economies.
- 5.10 The government has announced that it is aiming to publish the Provisional Settlement on 6 December 2018. It has also indicated that it has plans to issue consultations on;
- The further progression of the Fair Funding Review in advance of Provisional Settlement 2019/20; and
 - The redesign of business rates retention by the end of the year.

Negative RSG in 2019-20

- 5.11 In 2016/17, the Government introduced the concept of Negative Revenue Support Grant and this remains an issue for some Councils. As more councils are impacted by this change the Government has come under pressure to review this aspect of the Grant system. The Secretary of State announced that he will review this element during the forthcoming year, but warned that any solution will need to be found from within the existing Local Government funding system.
- 5.12 Negative Revenue Support Grant is the name given to a downward adjustment of a local authority's business rates top-up or tariff. This occurs as a consequence of changes to the distribution methodology adopted at the 2016-17 settlement, which formed the basis of the multi-year settlement.
- 5.13 For many authorities, the required reduction of Core Funding exceeded their available Revenue Support Grant. To deal with this, business rates tariffs and top-ups were adjusted so that an increased amount of business rates were redistributed away from the authority and towards other authorities. This adjustment has since become colloquially known as 'Negative RSG'.
- 5.14 In 2019-20 Negative RSG totals £152.9m and affects 168 authorities.
- 5.15 MHCLG has explored a number of possible options for addressing the issue of Negative RSG, and has formed an initial preference to eliminate the issue via forgone business rate receipts as alternative options are assessed as being unaffordable or fail to resolve the issue.
- 5.16 The Government considers direct elimination of Negative RSG via forgone business rates receipts the preferred approach to resolve Negative RSG, meeting the key criteria of being both fair and affordable. This option also benefits from being both simple and direct.
- 5.17 This option would remove Negative RSG for all the authorities affected at a cost to the Government of £152.9m in forgone business rates receipts. This funding would be met from the Government's share of business rates.
- 5.18 The outcome and financial impact will not be known until 6th December.
- 5.19 For AVDC, this goes some way to addressing concerns about the ending of core central government funding next year and having to pay vital business rates income to the government as a result of negative revenue support grant in 2019-20.

6 Business Rates Pooling and 100% Retention

- 6.1 From 2020-21 the business rates baseline will be redistributed according to the outcome of the new needs assessment, subject to suitable transitional measures.
- 6.2 Since 2013, business rate retention has also rewarded councils with a share of growth in business rate revenues. In February 2016, the Government complemented these changes with the announcement of a 'fair funding review', followed by consultations in July 2016 and December 2017.
- 6.3 The fair funding review will be used to change business rates baselines. These provide each council's starting point for the business rate retention system. New baselines will be applied in 2020 – but not reviewed annually. This will mean that in the years after 2020, individual councils' incomes will diverge from the baseline, as their business rate revenues grow by different amounts. This is a deliberate outcome of rate retention: it is intended to encourage councils to try to increase their rate revenues instead of being dependent on the Government for funds.
- 6.4 The effects of the review on councils' financial health are not clear cut. The outcomes will depend critically within rate retention: for instance, how to set the baseline, how long before the next review and how to divide rate revenue between counties and districts ('tier splits'). These are all still subject to the consultation process.
- 6.5 In practice, tier splits will become irrelevant within Buckinghamshire if the new unitary council comes into existence on the 1st April 2020. The Government Grants currently received by each of the existing Bucks authorities will be collapsed together and this will become the new entitlement.
- 6.6 In 2016/17, Aylesbury Vale entered into a Business Rates Pooling arrangement with Bucks County Council, Bucks Fire and Rescue, Chiltern District Council and South Bucks District Council. This arrangement allows the Pool to retain a proportion of Business Rates Growth which would normally go to the Government and allows councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus each council will be incentivised to promote economic expansion.
- 6.7 AVDC have benefited from the existing 50% retention scheme and pooling arrangements. In its first year of operation, the gains from the Pool across the whole Pooling area amount to approximately £1.25 million, of which circa £357,000 related to Aylesbury Vale. The Pool created will continue to operate until any of the organisations that are party to it notify the Government that they wish to exit the arrangement.
- 6.8 For 2019/20 planning purposes, a view will be taken on any anticipated gain in the budget proposal. This presents a prudent position given risks in terms of e.g. valuation appeals. Any gain achieved will therefore be placed in the Business Rates Equalisation Reserve and decisions on how to apply it will be brought forward once the actual gain is known.
- 6.9 The Government remains committed to the concept of business pooling and it is piloting ways to achieve the broad ambitions of its policy intention without the need for primary or secondary legislation.

- 6.10 A third phase of business rate retention pilots will go ahead from April 2019 with a 75% retention scheme and the 'no detriment' clause scrapped, the government has announced. Pilot areas in the previous two rounds have been trialling 100% retention of business rates and will continue to do so for the relevant year.
- 6.11 Working together with the other councils in Buckinghamshire, AVDC has made an application to test the 75% retention pilot in the next financial year. New 75% retention pilots in 2019/20 will increase the level of retained rates to the council but also provide the opportunity to test and gather information on the design of the new business rates retention system in preparation for 2020/21. The pilots will test authorities' administration, technical planning for implementation, and look at system maintenance; how the accounting, data collection and IT systems will work.
- 6.12 Projected savings from the pilot are estimated to be up to £7.7million, of which £5.2m is from higher growth share and £2.5m from no growth levy.
- 6.13 MHCLG said it expects successful applications to be announced alongside the publication of the provisional local government finance settlement.
- 6.14 It should be restated that there is an ongoing legal challenge to a significant group of rateable properties within the Vale. If successful, and if backdated, the local repayment might amount to many millions and could wipe out any gain from Business Rates in the current year.
- 6.15 The impact of the Chancellors statement of October 2018 to cut business rates by a third for small retailers with a rateable value of £51,000 or less will also have to be a budgetary consideration, but the Government has undertaken to compensate councils fully for the cost of this relief.

7 Brexit

- 7.1 With a planned date in March 2019 for the UK to leave the EU, Brexit is also likely to feature as a budget planning issue within the life of this MTFP but the impacts, positive or negative, are likely to be far reaching and much harder to predict at this stage. No direct financial implications of the change have been incorporated into the current MTFP, other than to be mindful in terms of setting appropriate contingencies.
- 7.2 The implications for the Council will be wide ranging with likely impacts on value of the pound and spending power, possible impact on local business and business rates and impacts on the availability of workforce.
- 7.3 With less than 6 months until the UK will have officially left the EU and uncertainties about the future, the Council has created an officer working group which is considering and reviewing the issues it will potentially face.

8 Council Tax

- 8.1 On Council Tax, the Government has signalled its intention to hold the broad referendum principles from the last two years. Specifically, for districts, this means a maximum of 3% or £5, whichever is the greater.
- 8.2 Aylesbury Vale chose to increase Tax by £5 last year, the maximum permissible, representing a 3.48% increase.

- 8.3 The Medium Term Financial Plan assumed a further increase of £5 in 2019/209, representing an increase of 3.34% in that year.
- 8.4 Against a backdrop of increasing inflation, a 3% increase is increasingly looking low and the Government will come under pressure from the sector to set a threshold which at least keeps pace with the real growth in costs.
- 8.5 Inflation is current 2.9% using the CPI measure and just above 3% using RPI, with concern that currency weakness may push this up still further.
- 8.6 The assumptions around the proposed increase in Council Tax will be re-tested as part of the Budget development process, together with a consideration of the implications around Council Tax harmonisation and whether this has any bearing on Tax setting for 2019/20.
- 8.7 In relation to Parish and Town Councils the consultation states that it expects to see clear evidence that these bodies are exercising restraint. Recognising that the uncertainty around capping was driving local councils to increase Council Tax, the Government has announced that it will not impose capping for councils for at least two further years.
- 8.8 The Government intends to provide an update on its proposals for council tax referendum principles including the Adult Social Care precept, alongside the provisional Local Government Finance Settlement later in the year.

9 New Homes Bonus

- 9.1 The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Over £7 billion has been allocated to local authorities through the scheme to reward additional housing supply.
- 9.2 Although the Bonus was successful in encouraging authorities to welcome housing growth, in the Government's opinion it did not reward those authorities who are the most open to growth. In December 2016, following consultation, the government announced reforms to the Bonus as follows:
 - reduction of the number of years New Homes Bonus payments are made from 6 to 5 years in 2017-18 and to 4 years from 2018-19;
 - introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017-18, below which the Bonus will not be paid
- 9.3 The Government has retained the option of making adjustments to the baseline in future years to reflect significant additional housing growth and to remain within spending limits set at Spending Review 2015. In 2018-19 the baseline remained at 0.4%. Due to the continued upward trend for house building, the Government has indicated that expects to increase the baseline in 2019- 20. This will be outlined when the provisional finance settlement is published later in the year. If increased, this will reduce the amount of Bonus the Council receives.
- 9.4 Below the baseline of 0.4% growth councils do not receive any financial reward for the new homes built in their areas.
- 9.5 2019-20 represents the final year of funding agreed through the Spending Review 2015. In the light of this, it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that

meet or exceed local housing need. Government will consult widely on any changes prior to implementation.

10 Inflation and Pay

- 10.1 The MTFP agreed in February made assumptions around Inflation and Pay based upon trends in the economy. In practice, the looming Brexit deadline is having unpredictable effects on the economy as markets react to the uncertainty the issue is causing. Much of this will be determined and resolved by the Government's approach to the exit from the European Union.
- 10.2 At the point of writing it is still not clear as to what kind of agreement the UK Government can achieve or how global markets will react to this.
- 10.3 For now, it appears that continued uncertainty might weaken the Pound and push inflation higher in the short term. Seemingly, this will now hasten higher interest rates. However, the situation is volatile and provides an uncertain environment in which to plan. This will need to be kept under review, but it seems unlikely that any great clarity will emerge during the budget planning period. It is therefore probable that this will become one of those issues that will necessitate continual review and a higher level contingency.
- 10.4 Two years ago the Staff Side and Unions agreed a two year pay settlement arrangement with 1% in 2017/18 and a further 2% in 2018/19. This agreement was built into Medium Term Planning assumptions. A new agreement will need to be reached with staff for 2019/20 and discussions have commenced.

11 Reserves and Balances

- 11.1 Earmarked reserves represent the prudent saving of sums against the recognition of future financial events which, if not prepared for, would be difficult to deal with at the point they occur. In short, earmarked reserves are an essential part of sound financial planning.
- 11.2 The reserves are held for legitimate reasons and the balances are reasonable given a fair assessment of the budgetary pressures that they are held against.
- 11.3 It is expected that the total balance held in reserves will dip significantly over the next few years as the pressures against which they are held materialise and the infrastructure schemes, for which the New Homes Bonus is held, are delivered.
- 11.4 The council holds balances for a number of purposes, one of which is smoothing out the receipt of income in to the Council's budget, where the generation of income is volatile. The Council holds two such reserves with tangible balances that were available to it in order to manage volatility over the medium term planning cycle.
- 11.5 With the need to resources an implementation plan for the new council and the need to manage staffing costs across this transition period, it is proposed that these equalisation funds be repurposed and made available to offset the transition costs associated with local government reorganisation, subject to any demands being placed upon them in 2019/20. This will provide initial flexibility, but there is no clear sense at this stage whether this is sufficient (when pooled with the other councils) to see through the reorganisation. As a consequence, this will need to be revisited.

- 11.6 The two reserves in question are the Interest Equalisation Reserve and the Business Rates Equalisation Reserve. The combined value of these two reserves is estimated to be circa £5 million as at the end of 2018/19.
- 11.7 A review of reserves will be undertaken as part of the budget setting process.

12 The Council Tax Base

- 12.1 The Tax Base is a measure of the number of households which are liable to pay Council Tax in an area, in a given year. The Tax Base also takes into account the banding (size) of the property and the entitlement to discounts of the occupiers.
- 12.2 With the growth in the Vale over recent years the Tax Base has increased significantly above its historic growth trends, resulting in more Council Tax being payable. Whilst useful, in terms of the additional Council Tax generated, the reality is that the housing growth which has resulted in the Tax Base growth often contributes more cost, by way of demands for infrastructure and services, than the increased Council Tax income new residents will pay.
- 12.3 It is estimated that the combination of these factors will result in actual Tax Base growth of 1.3% in 2019/20 compared to the existing 1% assumed in the Medium Term Financial Plan. This is a reduction from the 1.97% achieved in 2018/19 attributed to an overestimate of completions in that year.

13 Other Potential Developments

- 13.1 At the time of writing the report, the Secretary of State has confirmed his decision to create a single Unitary District Council for Buckinghamshire which will come into existence in May 2020.
- 13.2 This fundamentally changes will happen during the period of the proposed MTFP. This clearly removes the need for medium term planning for Aylesbury Vale as a single entity organisation, but the Council remains obligated to handover its affairs to the new organisation in the best state it can. This means continuing to tackle known budgetary issues, generating new income streams and balancing its finances, in much the same way as has been its priority over the past 7 years.
- 13.3 Recognising this, the approach proposed is largely similar to that adopted for previous years, with allowances made for transitions costs, reconsideration of Council tax strategy and in the knowledge that some medium term projects, yet to commence, may need to be reconsidered.
- 13.4 At this early stage, the financial implications of the announcement are yet to be fully understood. As thinking and understanding are progressed, the significant financial impacts will be reported to Members.

14 Financial Resilience

- 14.1 CIPFA is consulting on its proposed publication of an index of resilience of English councils. The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge.
- 14.2 The index, based on publically available information, will provide an assessment of the relative financial health of each English council. As with all of CIPFA's analytical products, the index will not be a predictive model

but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure.

- 14.3 The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure.
- 14.4 The index will also provide a transparent and independent analysis based on a sound evidence base which should be more useful than unattributed speculation informed by little more than anecdote. CIPFA propose to develop and publish the index for every county, district, metropolitan borough, unitary authority and London borough in England although there will be a slightly different and simplified methodology for those councils that do not have a social care responsibility.
- 14.5 Given the Council's single minded and strong focus on dealing with the financial issues facing local government over the past 7 years, it is expected that Aylesbury Vale will perform well under any measure adopted.

15 Commercial AVDC

- 15.1 Commercialism and efficiency has been at the heart of the Council's strategy for dealing with the financial challenges faced by the sector over the past few years. In terms of preserving and improving core service delivery against enormous financial challenges, this has been immensely successful. Some governance issues have arisen as a result of this strategy but the Council has accepted the comments and used these to develop better risk profiles and to strengthen future governance arrangements.
- 15.2 The Council's approach to balancing its finances over the Medium Term Financial Plan has largely been focused on the Commercial AVDC Programme.
- 15.3 The Programme is much wider than simply selling new products and services. The project name actually alludes to the main focus, which is commercially minded thinking. Using this philosophy, the programme has comprised a many-pronged approach of achieving savings by consolidation of services, the use of Digital and reducing or eliminating duplication while at the same time generating income through commercial activities and sales of consultancy services.
- 15.4 As the financial pressure on all councils only intensifies it is absolutely imperative that the sector recognises that remaining solvent (and thereby the protection of services) can only be achieved by fully embracing and adopting the ethos of this strategy in all areas. Traditional, inflexible and stayed approaches to service delivery will only continue to fail the customer and, as importantly, fail to provide the financial sustainability that the each council owes to its residents in order to continue to serve the interests of their communities.
- 15.5 It is believed that Aylesbury Vale's sector leading experience and the attitude, innovation and enthusiasm of its staff will be invaluable to the new organisation in helping it to deliver modern, responsive services which are fit for the future.

16 Future Strategy and Planning

- 16.1 As highlighted at the beginning of this report, on the 1 Nov 2018 the Secretary of State, James Brokenshire, announced that he was persuaded by the argument for a single Unitary District Council for the entirety of Buckinghamshire. This means that the future strategic planning for the council is somewhat unusual. Day to day running of the Council will need to continue until May 2020, when the start of the new unitary council takes place, and it is expected that members will also have views as to the legacy of the council for the residents of the Vale, which they will wish to see passed on to the new council.
- 16.2 Therefore, it is suggested to Cabinet that as part of the budget setting process Council adopts a corporate strategy for 2019/20 which is focused on :
- Ensuring that we are Financially fit, including ensuring our commercial approaches of the past continue and we continue to grow and diversify our income streams
 - Leading and the shaping of place, ensuring we adopt VALP, and continue to cherish our towns, villages and areas whilst managing growth and regenerating our towns
 - Focusing on our Customers and our ongoing innovation in customer delivery and digitisation, and
 - Ensuring our Partners and Communities help us deliver our goals and we ensure they are included in our decision making.
- 16.3 Assuming Cabinet is in agreement to this, officers will work up such a strategy to be adopted through the budget setting process early next year, forming the back bone to both the priorities and financial plan for 2019/20 and legacy for the future.

17 Connected Knowledge

- 17.1 The Organisation continues to progress its digital agenda, promoting innovation in the way services and IT solutions are delivered for Customers and staff.
- 17.2 Connected Knowledge is designed to be the catalyst for technological innovation and change, thereby propelling this organisation into the future. The programme is intended to support the Council with the necessary tools, policies, people and an environment that further enhances the commercial mind-set and company culture. The Council is already widely acknowledged as championing this agenda within the public sector.
- 17.3 The connected knowledge programme continues to underpin many of the components of future service delivery set out within Commercial AVDC strategy and is therefore crucial to the Council in meeting the financial agenda over the coming years.
- 17.4 The Programme has delivered on a number of projects. This includes:

- The creation of the Connected Knowledge platform, a platform of integrated data and intelligent systems enabling properly integrated and automated transactions for all our customers.
- The introduction of artificial intelligence (AI) and AI powered voice control, which over time will serve increasingly complex customer demands
- Being 100% cloud software based. Meaning a simplified, lower maintenance Information Communication and Technology (ICT) landscape
- A more strategic approach - to what we do, the services we provide, who we work with and what we buy. Move of more customer fulfilment functions on to the Salesforce platform helping our staff to provide our customers with better, more efficient and faster service, and reducing our complex IT legacy systems

17.5 As part of the Budget process in previous years, allocations of funding have been awarded to progress this work. As this programme of works is fundamentally about delivering a modern, sustainable, Council which responds to the needs of its growing customer base, it is believed that the continuation of programme will be absolutely vital to the new Council and so the budget will propose a further tranche of funding for this work.

17.6 As this is about creating a Council which can respond to the needs of an expanding community, it is proposed that the funding for the scheme should be met from unallocated balances of New Homes Bonus.

17.7 In the Medium Term Financial Plan the Connected Knowledge programme will represent a major area of investment but also the driver of a significant element of the planned efficiency savings across the next 4 years (for this Council or its successor). It is intended that a detailed update on the programme will be provided to Cabinet in December, alongside the initial Budget Proposal.

18 Capital Planning and the Impact of Spending Decisions

18.1 The revenue financing implications arising from the decisions taken by Council over the past few meetings (such as the investment strategy and schemes around Silverstone) have been factored into the budget for 2019/20 and beyond.

18.2 The Capital Programme is to be considered in a broadly parallel process to that of revenue budget development and the revenue impacts of any funding decisions taken will need to be considered and built into revenue planning as part of the approval process.

18.3 The review will need to consider the implications of reorganisation and schemes which has a delivery timeframe of a greater than one year will need to be reconsidered in context of the priorities determined by the new organisation.

18.4 Where the Council has had spare cash balances available, it has used these in lieu of borrowing. This reduces the need to take long term borrowing and also the Council gets the lender's return, thus it is financially advantageous to do so.

18.5 Utilising spare cash in this way is especially advantageous during periods of low interest rates. It is generally predicted that the Bank of England will

begin to increase base rates during 2018-19 but this is still heavily dependent on external and global factors and any increase, when it comes, is likely to be small and gradual.

- 18.6 The impact on investment income, the costs of borrowing and the returns or savings from investment decision must therefore all be considered together in order to understand the actual impacts of these decisions.
- 18.7 The final impact of completed and planned investment decisions are still being modelled and will be set out in more detail in subsequent reports.
- 18.8 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance. The code has been updated in December 2017. Local authorities are required by regulation to have regard to the Prudential Code.
- 18.9 Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.
- 18.10 Key developments proposed within the Code include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.
- 18.11 The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.
- 18.12 The requirements of the Prudential Code will be reflected in budget setting for capital in 2019/20 and for future years.
- 18.13 The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes was also updated by CIPFA, 2017. This sets out good practice in treasury management and is complementary to the Prudential Code.
- 18.14 Members will be also be considering the Council Treasury Management Strategy 2019-20 n due course.

19 Process for Resolving the Budget for 2019/20

- 19.1 As highlighted in previous years the Council's strategy for balancing the budget is an ongoing process and not an annual exercise purely undertaken at this time of the year. This is driven by a desire to balance the budget through internal reorganisation, efficiency and income generating strategies already set in train and without the need for a crude or simplistic cuts exercise.
- 19.2 The re-organisation recently completed (Commercial AVDC) and Connected Knowledge are central tenets of this approach.
- 19.3 From the work undertaken over the past 12 months (and prior to this) it is believed that this should be possible to balance 2019/20 (and would have been possible to balance the budget beyond) but, as highlighted, there are some key uncertainties which will need to be better understood through the development process.
- 19.4 It is therefore proposed to continue to work on refining the budget, making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

- 19.5 The focus will now be primarily on 2019/20, but consideration will still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state.
- 19.6 The Council has Working Balances broadly in line with its stated minimum. These allow the Council to push forward and invest in new savings initiatives with the confidence of a cushion behind it. Balances (adding to, or a use of) are therefore likely to form part of the strategy for concluding the balancing of the budget for 2019/20.
- 19.7 As identified, the focus remains on restructuring and new income generation and not upon lists of potential cuts for consideration. If a specific proposal requires a Cabinet decision or scrutiny consideration it will have already been taken through the democratic process at the appropriate time, or be separately identified for debate as part of the budget development process.
- 19.8 This will again make the budget process lighter touch and should avoid the need to take lists of potential service reductions through scrutiny committees.
- 19.9 An initial budget position will be presented to Cabinet in December and will be the subject of Scrutiny by Finance and Services Scrutiny Committee.

20 Options considered

- 20.1 This report sets out the current position in relation to budget planning and highlights the issues that will need to be resolved prior to agreeing a budget recommendation in January. As such there are no options to consider at this time.

21 Reasons for Recommendation

- 21.1 The report asks members to note the current position and asks them to agree the process to be adopted for concluding Budget Planning for 2019/20 and for revising the MTFP within the context of the uncertainty that now exists in the planning timeframe.

22 Resource Implications

- 22.1 These are included within the report.

23 Response to Key Aims and Objectives

- 23.1 The Budget is the key lever in terms of delivering the Council's objectives, where they require additional investment or resources. The budget also articulates the costs of providing existing services and a balance has to be struck between the competing demands for resources. These issues will be explored further in subsequent reports on budget development.