# CABINET

## 18 DECEMBER 2018

**PRESENT:** Councillor A Macpherson (Leader); Councillors S Bowles (Deputy Leader), P Irwin, H Mordue, C Paternoster, Sir Beville Stanier Bt, P Strachan, J Ward and M Winn. Councillors C Adams and M Rand attended also.

## 1. MINUTES

RESOLVED –

That the Minutes of 20 November 2018 be approved as a correct record.

## 2. INITIAL BUDGET PROPOSALS 2019/20

Cabinet received a report concerning initial budget proposals for 2019/20. The report referred to the emerging revenue position for the organisation for 2019/20 and future years, and detailed the impact of organisational change, planning decisions, estimated efficiencies and commercialisation gains. The report also detailed emerging financial opportunities and risks.

Even though it was clearly not the situation, the medium term plan had been constructed largely on the basis of a continuing authority. This approach provided the new unitary authority with an understanding of the pressures and opportunities facing Aylesbury Vale and its proposed solutions.

The final recommendations of Cabinet would be considered by the Finance and Services Scrutiny Committee on 14th January 2019 and considered again Cabinet on 16th January 2019 in the light of the Scrutiny Committee's comments. Final recommendations would be submitted to Council in February. The report now before Cabinet had been considered by the Finance and Services Scrutiny Committee on 17 December. The Chairman of the Committee attended this meeting and elaborated upon his Committee's considerations.

In summary form the Scrutiny Committee had commented as follows:-

- The Scrutiny Committee had been supportive of the decision to repurpose reserves to respond to the costs of local government reorganisation.
- The Committee had been supportive of AVDC developing a set of priorities underpinning the 2019/20 budget setting process that could act as a sort of corporate strategy and assist with enshrining AVDC values/principles into the new council.
- The Committee had received an explanation on why costs of providing services to additional residents (housing growth) was less money than the Council received by way of council tax income from the additional residents.
- The Committee had noted that a second meeting had been held with the staff side and unions on the staff pay award for 2019/20, and that staff would soon be balloted on an offer, provision for which had been made within the proposed budget.
- It had been noted that the other district councils were currently combining for an OJEU notice on waste collection. It had been noted also that it was too early at

the moment to comment upon how waste collection services across the new council would be harmonised in the future. The Scrutiny Committee had expressed contentment with the fact that AVDC was in a good financially resilient position.

- It had been noted that the future of New Homes Bonus (NHB) was uncertain. (it was however indicated as part of the discussion on the budget proposals, that there remained an opportunity of holding a further bidding round in relation to the Parishes scheme which was highly valued by them).

- The Scrutiny Committee had been advised that the Council undertook periodic reviews of people's eligibility to claim the single persons council tax discount.

**Background**

The report to Cabinet on 20 November 2018 had set out the context for 2019/20 budget planning and had outlined a series of high level issues facing the Council when developing budget proposals and updating its Medium Term Financial Plan (MTFP). There still remained a number of key uncertainties, such as the financial impact of the unitary decision, retained business rates, funding levels in relation to Government Grant and the level of New Homes Bonus.

At the time of writing the Cabinet report, the Secretary of State had confirmed his decision to create a single Unitary District Council for Buckinghamshire which would come into existence in May 2020.

This fundamentally changed what would happen during the period of the proposed MTFP. This removed the need for medium term planning for Aylesbury Vale as a single entity organisation, but the Council remained obligated to hand over its affairs to the new organisation in the best possible state. This meant continuing to tackle known budgetary issues, generating new income streams and balancing its finances.

At this early stage, the financial implications of the announcement were yet to be fully understood. It was noted that as matters progressed, the significant financial impacts would be reported to Members.

Cognisant of the need to resource an implementation plan for the new council and the need to manage staffing costs across this transition period, Cabinet had previously agreed that the equalisation funds for business rates and interest 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. Whilst this would provide initial flexibility, there was no clear sense at this stage whether this would be sufficient (when pooled with the other councils) to see through the reorganisation. As a consequence, this would need to be revisited. The combined value of these two reserves was estimated to be circa £5 million at the end of 2018/19.

At its meeting in November, Cabinet had agreed that as part of the budget setting process for 2019-20, the Council should adopt a corporate strategy for 2019/20 which was focused on:-

- Ensuring that the Council was Financially fit, including ensuring its commercial approaches of the past continued and it continued to grow and diversify income streams.

- Leading and shaping place, ensuring the adoption of VALP, and continuing to cherish the District's towns, villages and other areas whilst managing planned growth and regenerating towns.

- Focusing on Customers and innovation in customer delivery and digitisation.

- Ensuring partners and communities helped with the delivery of the Council's goals and ensuring they were included in decision making.

As highlighted in previous years the Council's Strategy for balancing the budget was an ongoing process and not an annual exercise purely undertaken once a year. The ongoing work across the Council in terms of its commercial agenda (in its widest sense) had meant that this draft budget had avoided the need to take lists of potential service reductions through Scrutiny Committees.

Budget setting and planning had been focused primarily around the delivery of efficiency savings and new income generation but with consideration of the wider budgetary risks potentially facing the Council. The Cabinet report divided the main elements of budget planning between service pressures and savings proposals and provided detail on funding streams including Government Grant, Business Rates and proposals for Council Tax.

The net budget for service related expenditure available across the organisation for 2019/20 was £17.371m. This largely represented baseline funding of £16.934m carried forward from 2018/19, with additional provision made for service pressures for the 2019/20 financial year, offset by realisable savings.

In setting the plans, consideration had been given to the longer term view, and given the scale of efficiencies identified during the budget setting process for 2019/20, it had been possible to provide for savings in future years. Cabinet recognised the importance that anticipated savings beyond April 2020 should be clearly articulated so as to ensure that the new organisation understood both the work undertaken and planned in order that it could incorporate this in to its own financial planning (should it wish).

In setting the budget for 2019/20 a number of working assumptions had been made. based on the best known information at the time of preparing the report. However, given the dynamic national and local environments, it might be necessary to amend the proposals to take account of any emerging changes to financing. Work would continue on refining the elements of uncertainty between now and the Cabinet's final budget proposal. This would be informed by the Finance and Services Scrutiny Committee's comments, the latest projected position on Business Rate Growth and the grant numbers from Government. This had been expected to be 6th December 2018, but due to other Parliamentary pressures, notably Brexit, this had been delayed.

The Chancellor had delivered the 2018 Budget on 29 October 2018. There had been a number of tax and spending announcements of relevance to local government, and the Chancellor had outlined the trajectory of overall public spending for the 2019 Spending Review.

The Chancellor had indicated that "austerity" was coming to an end and that the UK economy was entering a period of economic growth. Predications suggested that public spending would increase by 1.2% year on year in real terms, and this would be a fiscal stimulus to the economy generally. There were potentially a number of underlying risks to delivery of the revised forecast including the impact of Brexit and any changes to the economy.

The Chancellor's Autumn Budget had promised more funding overall for the public sector. However, the majority of this additional funding would be targeted to meet NHS service demands, with other Departments likely to bear the brunt of continuing financial pressures and funding reductions. It could therefore be reasonably assumed that Local Government would continue to see ongoing reductions in funding over coming years and Cabinet felt that this should remain the central planning assumption.

As at the end of September 2018, the Council was forecasting an overspend against the 2018/19 plan of £0.238m (before the application of reserves). Work had continued with a view to bringing this forecast overspend down over the last months of the financial year. It was anticipated that the exceptional costs underlying the forecast deficit would be managed through use of balances in 2018-19 and that there would be no impact on 2019-20 planning assumptions.

**Savings and Income Identification Options**

As had been set out in the report to Cabinet in November, the approach adopted for setting the budget for 2019/20 was similar to that followed in recent years and relied primarily on capturing the savings delivered via service reorganisation, income generation and restructuring undertaken in previous years, (in anticipation of the Government Grant reductions).

Since the prospect of greatly reduced Government Grant had first been mooted in 2010/11 the Council had devoted considerable effort and resources to identifying and delivering a smaller net budget requirement. This had been achieved by reconsidering what it did, what it could do and who should pay for the services provided.

The major transformation exercise of 2017/18 and the planned response to budget reductions had represented a cornerstone of the budget development process. Budget holders also continued to be engaged in the identification of other measures to increase efficiencies and to increase income potential. Managers had been empowered to manage within agreed financial parameters, to identify where things could be done more efficiently and to take advantage of in year productivity and non-recurrent opportunities to identify savings.

A list of the significant savings to be incorporated into budget planning was appended to the Cabinet report. In fact all the Appendices to the report could be viewed on the Council's website.

A total of £1.916m of savings had been identified for 2019/20 and included:-

a) Further savings opportunities arising from the continuing review of staffing requirements, (£0.317m).

b) Savings arising from the identification of improved income opportunities (£1.099m).

c) Proposed improvements in efficiencies, with savings budgeted at £0.500m.

The refresh of the 2019/20 budget had resulted in the identification of additional savings to those previously identified.

Cabinet noted, in particular, the efficiency savings and income opportunities arising from the following:-

- Staff savings of £317,000 had been realised over a number of areas including customer fulfilment and internal restructures, including a saving from the removal of an assistant director post.
- Proposals included increased income streams in relation to planning applications, pre planning agreements and building control fees (£200,000), rating enforcement recovery (£50,000) and general commercial and business strategy (£100,000). In addition, a service review of the Garden and Commercial waste service was anticipated to deliver additional in-year income of £250,000 which would include some increased pricing.

- £150,000 had been included as a dividend from the joint crematorium committee.
- It was anticipated with the completion of the Waterside North development, that an additional £100,000 income would be recovered for the Council in 2019/20.
- The investments made in previous years, with the purchase of refuse vehicles, had now resulted in recurrent revenue savings on running costs, forecast at £175,000 per annum.
- A proactive and effective management of contracts generally through effective procurement processes (£100,000) and specifically for some property contract arrangements. Service charges for properties the Council rented out were anticipated to increase by £76,000 and the previously re-negotiated Waterside Theatre contract was expected to realise savings of £25,000.
- The budgets for audit and information security had been reviewed and savings of £40,000 and £80,000 identified accordingly, with budgets now aligned to anticipated spend.
- The budget proposals also included a reduction in spend in relation to financial support for the Citizens Advice Aylesbury Vale grant (£10,700). This was in line with previously agreed funding arrangements.

**Pressures**

A list of the significant budgetary pressures included in the financial plan for 2019-20 Had been appended to the Cabinet report. A total of £2.354m of budgetary pressures had been identified and included:-

- Additional budget pressures of £1.481m for 2019-20 in relation to service delivery.
- Cost pressures in relation to inflation of £0.873m.

A number of new spending pressures had materialised in discussions with budget managers as part of the budget setting process. Cabinet noted, in particular, the following:-

- It was anticipated that income from the sale of recyclables would continue to decline. This cost pressure had initially been identified in 2018-19 as major problems in the global plastic recycling industry had started to impact upon all local councils. The risk of reduced income and increased costs had been recognised as a budgetary pressure (£200,000).
- As a result of a dynamic and challenging market environment, a budget provision of £250,000 had been made to meet anticipated reductions to rent and service charge recovery across the Council.
- Provision had been made for additional revenue costs as a result of operationalisation of the Connected Knowledge programme (£200,000) and other systems software costs (£30,000). In particular, the additional cost was mainly associated with licencing and hosting.
- The 2019-20 budget proposals identified additional staffing for a number of departments:-
    - The planning department and the IT department. This aligned to spend patterns in 2018-19 as both departments aimed to address underlying staff and workload pressures to ensure a more cost effective delivery model for the future (£260,000).

- Additional staffing within revenues and benefits to support the continued operationalisation of universal credit (£50,000). Once embedded it was anticipated that these costs will be removed.
- The re-instatement of the Learning and Development post within People and Culture in recognition of input to staff development (£39,000).
- Staff changes across customer fulfilment (£47,000) to address current salary pressures.
- A restructure within Property services resulting in a new post to promote property management (£44,000).

- Additional budget provision has been made available to promote the AVDC website development and intranet (£31,000), and also to meet the costs of the Modern. Gov annual fee not previously budgeted for(£12,000).
- In recognition of current pressures, a number of budgets across the sectors had been realigned to reflect income which was no longer recoverable. This included addressing historic income targets to ensure that income targets set were realisable and recoverable (£167,000).
- For waste services, an additional provision for staff had been included to support on-going service developments (£75,000).
- In recognition of the Exchange Street project, a budget provision of £26,500 had been made to support costs of maintenance.

The cost pressures included a general provision for inflation and pay related costs of £0.873m.

Two years ago the Staff Side and Unions had agreed a two year pay settlement to 2018/19 (2% increase in 2018/19). A new agreement would need to be reached with staff for 2019/20 and discussions had commenced.

The draft budget allowed only for a general provision for inflation and pay as the pay increase had yet to be agreed. Allowance had also been made for payment of annual increments to staff.

In practice, the looming Brexit deadline was having unpredictable effects on the economy as markets reacted to the uncertainty. Much of this would be determined and resolved by the Government's approach to the exit from the European Union. At the point of writing the Cabinet report, it was still not clear as to what kind of agreement the UK Government could achieve or how global markets would react to this.

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

As referred to elsewhere on the agenda Cabinet considered a Capital Programme update report that included all the recent schemes that had been agreed. The budget provision for 2019-20 did not allow for any additional costs for borrowing, or associated revenue costs to support the Capital Programme for 2019-20 and future years. For a number of years now, the Council had successfully managed capital spend from effective management of cash balances and had avoided spend on borrowing costs. It had been assumed that this prudent position of under borrowing would continue.

On 13 September 2017, Council had agreed a Commercial Property scheme of £100m. No revenue implications for this overall scheme had been included in the revenue budget for 2018-19 and future years. This was based on the premise that any business cases arising from the plan would be required to be revenue generating with no call on existing revenue resources.

The decision to create a single Unitary District Council for Buckinghamshire would inevitably impact on any future investment decisions made by AVDC.

The pressures represented in the budget reflected the outcomes of discussions with budget managers across the Organisation.

**Government Grant**

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

The table below showed the elements of Grant covered by the 4 year Settlement. Currently only the Revenue Support Grant element was confirmed, as the Baseline Funding Level related to the retained benefit the Council received from the Business Rates it collected.

| | **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 |

Although the settlement was a 4 year settlement, annual Government confirmation was still required. The Government had announced that it was aiming to publish the Provisional Finance Settlement on 6 December 2018. The Cabinet report had been produced ahead of the grant announcement.

For the purposes of the draft budget proposals it had been assumed that there would be no change to the baseline funding of £3.83m. Any deviation from this planning assumption would require additional modelling of the plan for future years and might impact on the final position recommended to Council.

A new system (Fair Funding), based on a Government consultation, would be introduced in 2020/21 alongside a Government wide Comprehensive Spending Review. The Fair Funding Review would affect how funding was allocated and redistributed between local authorities from 2020 onwards. It was expected to use three main ‘cost drivers’: population, deprivation and sparsity, together with additional cost drivers related to specific local authority services.

How this would be done had still to be confirmed and would be the subject of further consultation between now and mid-2019; and it would 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 were to be available by spring-summer 2019, and the review was to be implemented in April 2020.

Alongside the new methodology, in 2020/21, a new phase for business rates retention programme would also be introduced. The aim was for local authorities to retain 75% of business rates growth from 2020/21, and this was intended to be a lever and incentive for local authorities to grow their local economies.

The Government had announced that alongside the Provisional Settlement on 6 December 2018 it was also intending 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.

The working assumption, based on trends to date and intelligence of Senior Officers, was that Government grant funding would continue to decrease for this tier of government. Allowance had been made in the medium term financial plan for reduced levels of funding but the extent and timing of the reduction was not known with any certainty and this posed a risk for accurate future planning. It was against this background and emerging risks that AVDC continued to focus on increasing opportunities to enhance income generation opportunities through Commercialisation.

Negative RSG in 2019-20

In 2016/17, the Government had introduced the concept of Negative Revenue Support Grant and this remained an issue for some councils. As more councils were impacted by this change the Government had come under pressure to review this aspect of the Grant system. The Secretary of State had announced that he would review this element during the forthcoming year, but had warned that any solution would need to be found from within the existing Local Government funding envelope.

Negative Revenue Support Grant was the name given to a downward adjustment of a local authority's business rates top-up or tariff. This occurred as a consequence of changes to the distribution methodology adopted at the 2016-17 settlement, which formed the basis of the multi-year settlement.

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 had since become colloquially known as 'Negative RSG'.

In 2019-20 Negative RSG totals £152.9m and affected 168 authorities.

MHCLG had explored a number of possible options for addressing the issue of Negative RSG, and had formed an initial preference to eliminate the issue via forgone business rate receipts as alternative options were assessed as being unaffordable or fail to resolve the issue.

The Government considered direct elimination of Negative RSG via forgone business rates receipts to be the preferred approach to resolve Negative RSG, meeting the key criteria of being both fair and affordable. This option also benefitted from being both simple and direct.

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.

The final and definitive outcome and financial impact would not be known until December. However, the indication was that the financial impact of the proposed change would benefit the Council by circa £0.7m. This would be a non-recurrent re-alignment of funding.

Given the non-recurrent nature of the proposed additional funding, it was felt that the funding should be ring fenced to support likely and known pressures during 2019-20 to include £0.3m to support the ongoing housing growth agenda in Aylesbury Vale and the associated infrastructure schemes, such as HS2, East West Rail and the Oxford Cambridge expressway. The remaining £0.4m would be allocated to meet the costs of the car park changes (replacement equipment) detailed in the Car Park Strategy

For AVDC, this went some way towards 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.

**Retained Business Rates**

The revaluation of all properties for business rates had taken effect from 1 April 2017. Revaluation had been completed to maintain the accuracy in the rating system by reflecting changes in the property market since the last revaluation in 2010.

Based on the trends which sit below the revaluation, previous year's outturn income and in-year financial performance, an initial target of £476,000 had been included in the Budget for 2019-20 as AVDC's retained share of the Business Rates Growth. The position would continue to be kept under review as the detailed budget continued to be developed so that the final budget report could be informed by the latest information available at that time.

The Council had to date held a Business Rates revaluation Reserve, the purpose of which was to meet any significant year on year fluctuations caused by the volatility inherent in the Business Rates system. The decision by Cabinet on 20th November to use the Business Rates revaluation reserve to support the transitional costs to a unitary organisation meant that this reserve would no longer be available to manage the financial impact of changes. The risk was however mitigated by proposed changes to the system which would need to be addressed by the future administration.

From 2020-21 the business rates baseline would be redistributed according to the outcome of the new needs assessment, subject to suitable transitional measures.

Since 2013, business rate retention had also rewarded councils with a share of growth in business rate revenues. In February 2016, the Government had complemented these changes with the announcement of a 'fair funding review', followed by consultations in July 2016 and December 2017.
The fair funding review would be used to change business rates baselines. These provided each council's starting point for the business rate retention system. new baselines would be applied in 2020 – but not reviewed annually. This would mean that in the years after 2020, individual councils' incomes would diverge from the baseline, as their business rate revenues grew by different amounts. This was a deliberate outcome of rate retention: it was intended to encourage councils to try to increase their rate revenues instead of being dependent on the government for funds.

The effects of the review on councils' financial health were not clear cut. The outcomes would depend critically on a number of issues including for instance, how the baseline was set, how long before the next review and how to divide rate revenue between counties and districts ('tier splits'). These were all still subject to the consultation process.

In practice, tier splits would 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 would be collapsed together and this would become the new entitlement.

**Business Rates Pooling**

In 2016/17, Aylesbury Vale had entered into a Business Rates Pooling arrangement with Bucks County Council, Bucks Fire and Rescue, Chiltern District Council and South Bucks District Council.

This arrangement allowed these councils to retain a greater proportion of Business Rates growth, by reducing the amount the Government would ordinarily capture.

For 2019/20 planning purposes, no account had been taken of any anticipated gain in this budget proposal. This presented a prudent position given the risks in terms of valuation appeals for example. Any gain achieved would therefore be placed in the Business Rates Equalisation Reserve and decisions on how to apply it would be brought forward once the actual gain was known, or alternatively would provide extra contingency against the costs of unitary or Brexit.

The Government remained committed to the concept of business pooling and it was piloting ways to achieve the broad ambitions of its policy intention without the need for primary or secondary legislation.

The Government had announced that a third phase of business rate retention pilots would go ahead from April 2019 with a 75% retention scheme and the ‘no detriment’ clause scrapped. Pilot areas in the previous two rounds had been trialling 100% retention of business rates and would continue to do so for the relevant year.

Working together with the other councils in Buckinghamshire, AVDC had made an application to test the 75% retention pilot in the next financial year. New 75% retention pilots in 2019/20 would 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 would test authorities' administration, technical planning for implementation, and look at system maintenance; how the accounting, data collection and IT systems would work.

Projected savings from the pilot were estimated to be up to £7.7million (across the Pool), of which £5.2m was from higher growth share and £2.5m from no growth levy.

MHCLG had said that it expected successful applications to be announced alongside the publication of the provisional local government finance settlement.

It was restated that there was 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.

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 would also have to be a budgetary consideration, but the Government had committed to compensate councils for the cost of this change.

**Investments/Net Borrowing**

The Council had been using its cash balances over the past few years in lieu of long term borrowing. This delivered an advantage over lending returns whilst base rates remained low. The financial advantage in terms of lower borrowing costs had been factored into the initial budget proposals.

For 2019/20, and future years, additional income from Investment interest had been included. This was based on actual financial performance for 2017/18, forecast outturn for 2018/19 and a forecast for future years. The Council had always taken a proactive approach to managing cash balances, with the bulk of the income being recovered from short-term money market lending. A reduction in borrowing costs was also a factor of the 2019/20 financial plan.

Decisions to borrow against agreed business cases were made on a case by case basis and might vary from original financing plans. All decisions to borrow were made against a background of existing resource availability and minimising costs and maximising returns. Where possible, decisions to borrow were avoided with the use of the Council's capital receipts being a preferred methodology to fund capital development. The reduced borrowing costs for 2019/20 were a direct result of decisions to borrow less against agreed plans.

In previous years, shortfalls of investment earnings, which had arisen from the record low base rate, had been smoothed via the use of the Interest Rate Equalisation Reserve. The Reserve had been used effectively over the past few years to smooth the budget pressure created by the lower interest rates in the realistic expectation that rates would recover.

At the meeting on 20th November 2018, it had been decided to utilise the Interest Equalisation Reserve to support cost pressures arising from the unitary decision. Whilst there was some risk in terms of financial volatility in delivery of planned investment returns, in recent times there had been better than expected investment income and the expected outlook did not signify a significant risk in the short term.

The plan reflected reduced income from AVE interest payments (reduction of £43,900) and no change to Dividends payable in 2019/20. The plan had been adjusted to reflect actual and known interest repayments from AVE.

**New Homes Bonus**

The New Homes Bonus had been introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Over £7 billion had been allocated to local authorities through the scheme to reward additional housing supply.

Although the Bonus had been successful in encouraging authorities to welcome housing growth, in the Government's opinion it did not reward those authorities who were the most open to growth. In December 2016, following consultation, the Government had announced reforms to the Bonus as follows:-

- Reduction of the number of years New Homes Bonus payments were 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

The Government had retained the option of making further adjustments to the baseline in future years to reflect significant additional housing growth and to remain within spending limits set at the 2015 Spending Review. In 2018-19 the baseline had remained at 0.4%. Due to the continued upward trend for house building, the Government had indicated that it expected an increase in the baseline in 2019- 20. This would be outlined when the provisional finance settlement was published. If increased, this would reduce the amount of Bonus the Council received.

Below the baseline of 0.4% growth councils did not receive any financial reward for the new homes built in their areas.

2019-20 represented the final year of funding agreed through the 2015 Spending Review. In the light of this, it was 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 would consult widely on any changes prior to implementation.

Payments to the Council had already reduced from £7.9m in 2017/18 and £6.4m in 2018/19. It was expected that this would reduce still further in 2019/20.

Given the uncertainty surrounding its future, the initial budget proposals for 2019/20 and for the period of the MTFP, did not propose any changes to the contribution from New Homes Bonus into the revenue budget. This remained at £1.178m.

Once the Finance Settlement data was released the assumptions would be re-tested and any changes required would be reported back to Cabinet (and Scrutiny, if timing permitted) as part of the Final Budget Proposals.

Parishes had been notified that the Parish scheme was not inviting new applications because of the Secretary of State's 'minded' decision. Even though this decision had been confirmed there remained the opportunity of holding a further bidding round in 2019/20 should the Cabinet wish to see the scheme proceed.

The scheme had been highly valued by Parishes and was something the Council might wish to see continue into the new unitary authority, and keeping the scheme going into 2019/20 would provide the continuity to enable this to happen, should it be the wish of the new council.

**Aylesbury Vale Estates (AVE)**

An AVE Business Plan for 2019/20 was currently being developed.

Dividend payments were forecast within the developing central version of the AVE Business plan. A prudent assessment of the dividend payable had been included in the budget proposals. This had been set at £200,000. Any increase or decrease from the forecast dividend would need to be considered as part of ongoing budget planning.

The AVE Business Plan also included a downside Business Case, as part of their scenario planning, which did not include a dividend payment. This had been recognised as a budgetary risk and account had been taken of this in determining the appropriate level of Working Balances to be held this year.

**Council Tax**

On Council Tax, the Government had signalled its intention to hold the broad referendum principles from the last two years. Specifically, for districts, this meant a maximum of 3% or £5, whichever was the greater.

As had been reported to Cabinet in the high level budget issues report in November 2018, national policy had now shifted away from the desire to see Council Tax levels frozen to an acceptance of minimal tax increases. In fact, contained within last year's 4 year settlement had been an assumption that each council would increase its Council Tax by the maximum permissible amount, short of requiring a referendum.

The Government had assumed that each council would do this and had reduced the amount of Grant it intended to award each council by an equivalent amount. Therefore, any Council not increasing their Council Tax by the assumed amount would effectively be worse off than the Government intended.

It was noted that in allocating grant reductions in the 4 year settlement, the Government had assumed that each qualifying council would take maximum advantage of this additional council tax increase threshold and had reduced grant by an additional amount equivalent to the extra Council Tax it expected councils to generate. Implicit within this, was a new Government assumption that more of the burden of funding council services would be transferred to the taxpayer.

Any council not wishing to pass this on to the taxpayer would consequently be worse off, as the Government would have reduced their Grant, assuming that they had. Given this, the initial budget proposals included the assumed that the maximum £5 increase was adopted in order to ensure that the Council was no worse off than the Government assumed.

A £5 increase at Band D would represent a 3.35% increase, equivalent to just under 10 pence per week, and would increase the Band D Council Tax for Aylesbury Vale District Council to £154.06.

Against this backdrop, it would be unreasonable for residents to continue to expect to receive the same services without something changing, such as the level of tax paid or the ability of the Council to generate new income through other means.

Council Tax Harmonisation would be something that the Shadow Council would need to consider as part of its preparation for the new council. To the best of officers' knowledge all councils in Buckinghamshire were continuing to exercise their current council tax strategies ahead of this work without specific reference to the potential decisions of the new council around harmonisation.

The Government intended 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.

**Council Tax Collection Rates**

The MTFP also reflected the finances arising from collection of Council Tax. For the purposes of planning, collections rates had been assumed at 98.5%.

In reality, collection rates could vary, either above the 98.5% or below with the former resulting in a collection fund surplus, and the latter a deficit.

In recent years the Council had experienced a very gentle decline in actual collection rates. It was difficult to attribute this reduction to any specific event, but it was considered that it was a reflection of wider economic factors.

**Reserves**

Earmarked reserves represented 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 occurred. In short, earmarked reserves were an essential part of sound financial planning.

The vast majority of reserves held were for legitimate reasons and the balances were reasonable given a fair assessment of the budgetary pressures that they were held against.

The size of the reserves and the different timespans over which they would be required presented an opportunity to mitigate some of the unforeseeable pressures.

The total balance held in reserves was expected to dip significantly over the next 2 years as the pressures against which they were held materialised and the infrastructure schemes for which the New Homes Bonus was held were delivered.

Cabinet had previously agreed 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.

**Review of Fees and Charges**

Fees and Charges were reviewed as part of the annual budget setting review process. A schedule of the total fees and charges levied by the Council had been appended to the Cabinet report. Work was ongoing in many of these areas.

**Balances**

It was reported that work would continue on refining the budget, making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

The focus would now be primarily on 2019/20, but consideration would still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state. These efficiencies would contribute towards balancing the budgets in future years. The 2019-20 MTFP assumed a balanced budget with no use of balances.

The working balances for 2019/20 were currently anticipated at £1.927m, marginally below the minimum assessed level for 2019/20 of £2m. A Schedule detailing forecast General Balances was submitted.

**Commercial AVDC**

In setting budgets for 2019-20, the organisation had set out clear objectives. These were intended to input into the unitary discussions and ensure AVDC's DNA was enshrined in the new Council.

By restating to Lead, Shape, and Enhance the economic, social and environmental wellbeing of the Vale, embedding AVDC values in the new unitary council , the Council started to set out its 'legacy' for the new council.

The AVDC mission was to ensure that in its last year it delivered its aims and priorities and embedded its values in the new unitary council.

It was believed that Aylesbury Vale's sector leading experience and the attitude, innovation and enthusiasm of its staff would be invaluable to the new organisation in helping it to deliver modern, responsive services which are fit for the future.

Commercialism and efficiency had 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 had been successful. Some governance issues had arisen as a result of this strategy but the Council had accepted the comments and had used these to develop better risk profiles and to strengthen future governance arrangements.

AVDC priorities underpinning the budget setting process included:-

Financially Fit

- 3 years of balanced budget strategy & contingency planning
- Continue to grow income streams.
- Robust Governance, Risk Management and Control framework to provide a platform from which to build the new council.
- Publication of the Council's inheritance plan to ensure that the legacy of AVDC was clearly set out for the new council.

Leading & Shaping of Place

- VALP Delivered before the new council was formed
- 970 homes per year – of which 225 affordable
- Delivery of the regeneration of Kingsbury and Market Square redevelopment in Aylesbury
- Delivery of 'The Exchange' and plans for the next phase of Aylesbury Town Centre Regeneration
- Embed Garden Town principles in growth areas

Customer & Innovation

- Continue the delivery of the Council's cultural and digital transformation programmes.
- Ensuring that the Council was listening to and improving its customer satisfaction.
- Widening the Council's customer service options and times/methods of delivery.
- Providing excellent services for all user groups which were fit for the future

Partners, Community & Environment

- Ensuring that the Council actively engaged in the development of key large scale infrastructure impacting on the Vale (e.g. Expressway, East West Corridor and HS2).
- Work with Parishes and Communities to provide capital funding to and ensure that they had a strong voice in the new council.
- Protecting the most vulnerable communities.
- Modernise Car Park infrastructure and offer to users.
- Continuing to host Iconic Events celebrating communities.

**Connected Knowledge**

The organisation continued to progress its digital agenda, promoting innovation in the way services and IT solutions are delivered for customers and staff. The Connected Knowledge Programme would underpin many of the components of future service delivery set out within the AVDC strategy and fitted well with the proposed Unitary plans. It was therefore crucial to the Council in meeting the financial agenda and transformation over the coming years.

A detailed update on the planned programme was provided to Cabinet at its meeting on 3rd December 2018. Funding of £1.48m was being requested for the 3rd tranche of works in 2019/20. This was in line with funding made available in 2017/18 and 2018/19. A report on the Connected Knowledge programme had been appended to the Cabinet report.

Building on phases completed to date, this programme of works would continue to deliver a modern, sustainable Council able to respond to the needs of its growing customer base. It was proposed that the funding for the scheme was met from unallocated balances of New Homes Bonus.

The use of reserves was justified in that the work of Connected Knowledge would result in sustainable infrastructure for the Council and it would also support the delivery of efficiencies.

Over time, funding arrangements for Connected Knowledge would be reviewed, with the aim of achieving a level of funding which could be met from continuing efficiencies.

**Medium Term Financial Plan (2019/20 and after)**

The report to Cabinet in November had set out the rationale for the core assumptions used in the Medium Term Financial Plan. The report had set 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 largest and most significant issue had been the announcement of a single Unitary District Council for Buckinghamshire. With the Secretary of State having only just made the announcement, this created far more questions than answers. The most immediate question being, over what planning timeframe should the budget now be considered?

It was therefore proposed to continue to work on refining the budget, making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

The focus would now be primarily on 2019/20, but consideration would still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state.

Despite the Chancellor announcing within his Autumn Statement that austerity was over, it was expected that austerity would continue for Local Government for at least the foreseeable future. The Medium Term Financial Plan set out in the latest report was predicated on reductions at the same rate as experienced over the last 5 years through to 2023.

The period of the MTFP would fall within the timescale for the UK to leave the European Union. No financial implications of the change had been incorporated into the current MTFP, although this had been taken into account in the level of un-earmarked balances available. The implications for the Council would be wide ranging with likely impacts on value of the pound and spending powers, possible impact on local business and business rates and also impact on availability of workforce.

Because of the various uncertainties, it was expected that there might need to be material changes in the Final Proposals presented to Cabinet in January 2019. Where uncertainty existed it had been identified within the Cabinet report along with the assumptions used and any mitigation strategy which existed.

Because of the narrow gap between Cabinet's meeting in January 2019 and the review of the draft proposals by the Finance and Services Scrutiny Committee, also in January, it was hoped that an update might be provided to the Scrutiny Committee on the developing proposals.

A balanced budget was presented for the years to 2021/22. Assumptions on income spend and efficiencies were very challenging to make for future years. The general principles of reducing costs and increasing income would remain the fundamental streams to addressing financial issues going forward.

**Budget Management**

The MTFP and the proposed budget set the Plan against which budget monitoring would be reviewed during the financial year 2019-20.

As with the current year and previous years, the financial environment would be challenging. The focus of the Council had to be to deliver the plan as set out in the Cabinet report. In managing budgets, budget holders would need to manage any in-year pressure including in built staff savings to be managed through turnover.

The level of savings realised would be monitored on a regular basis and any variance to plan escalated, with alternative plans being sought.

The last few years had been a time of transition as staff changes had been made in line with the cultural change environment. Having largely completed this, 2018/19 represented a time for consolidation as revised staffing establishments would be in place. The dependency on high cost agency staff had to be targeted to reduce the risk of in–year overspends.

Escalation processes would be in place to monitor performance in year against the agreed plan. Once the 2019/20 plan has been agreed, the key issues and messages will be shared with the organisation. A number of specific messages would be highlighted including:-

- Control of agency spend.
- Identifying where things could be done more efficiently, and at reduced cost.
- Maximising all opportunities to increase income to the Council.
- Reducing spend on non-pay items where possible.
- Managing the uncertainty in relation to unitary.

**Special Expenses**

It was reported that work was progressing to develop this budget. From an initial review of costs and services charged into this area, an increase in budget of £38,200 was anticipated. This was due mainly to the new maintenance and equipment contract.

It was anticipated that the Band D Council Tax could remain the same in this area.

Having asked for the position around the annual grant to the CAB to be reviewed as part of the final budget options process, it was,

RESOLVED –

(1) That the Finance and Services Scrutiny Committee be thanked for its input to the budget setting process.

(2) That the following in respect of the financial year 2019/2020 and the Medium Term Financial Plan be approved for the purposes of Scrutiny:-

  a. To take into budget planning the £1.916 million of proposed savings as set out within paragraph 4.6 to the Cabinet report.

b. To take into budget planning the £2.354 million of forecast pressures as set out within paragraph 5.2 and 5.3 to the Cabinet report.

c. To increase Council Tax by an annual amount equal to £5.00 (3.35%) for a Band D property (equivalent to less than 10 pence per week), from 1st April 2019.

d. To agree for work to continue on the development of the budget proposals and for any net variance resulting to be either added to, or deducted from General Balances.

e. To agree the revised list of Fees and Charges set out on the schedule appended to the Cabinet report.

f. To approve the use of £1.48 million from the New Homes Bonus reserve to meet the costs of the Connected Knowledge Programme in 2019/20.

g. That the level of the Band D Council tax arising from the Special Expenses Charge for 2019/2020 should remain unchanged.

## 3. CAPITAL PROGRAMME UPDATE 2019/20 TO 2022/23

Cabinet considered a report giving an update on the Capital Programme for the current year and setting out a revised programme for 2019/20 onwards. Cabinet's comments would be passed to the Finance and Services Scrutiny Committee for review as required under policy framework requirements. After consideration of the review by scrutiny, Cabinet would be make formal proposals to Council on 6th February 2019.

The Capital Programme had been updated to include changes and new proposals agreed by Council and Cabinet during the last year. The focus of the Capital Programme was on delivery of existing schemes which had already been approved by Council. The plan reflected the Council strategy to ensure both the prudent use and the maximisation of available capital resources.

The Council maintained an integrated strategic Capital Programme which was divided into three main sections:-

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

The Programme was reviewed annually with the current Programme being last approved and adopted at Council in February 2018. Since then, the Programme had been altered and amended on several occasions in response to organisational pressures, and agreements with Cabinet and Council where necessary, the Cabinet report reflects all those changes.

At the time of writing the report, the Secretary of State had confirmed his decision to create a single unitary district council for Buckinghamshire which would come into existence in May 2020.

This fundamental change would happen during the period of the proposed capital plan. This clearly removed the need for medium term planning for Aylesbury Vale as a single entity organisation, as the new organisation would want to determine its own priorities. However, the Council remained obligated to handover its affairs to the new organisation in the best state it could.

At this early stage, the financial implications of the announcement were yet to be fully understood. As thinking and understanding were progressed, the significant financial impacts would be reported to Members.

Future investment and borrowing decisions might be influenced by the outcome of the unitary arrangements and The Cabinet report provided an updated position with respect to forecast receipts and the position with regards to current and future major investment projects.

The report set out the high level issues facing the Council in terms of developing its capital plans.

In addition to the unitary decision, there remained a number of other key uncertainties, e.g. financial impact of Brexit and changes to the economy. Economic and interest rate forecasting remained difficult with so many external influences weighing on the UK.

Investment returns were likely to remain low during 2019/20 but appeared to be on a gently rising trend over the next few years. Borrowing interest rates had been volatile so far in 2018-19 and had increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances had served AVDC well over the last few years and the intention was to continue to do this where balances allowed.

The focus of the capital plan would now be primarily on 2019/20, but consideration would still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state.

A number of external and internal factors had a bearing on the available resources for the Capital Programme. Changes in anticipated resources effectively increased or reduced the level of resources available to fund new schemes and so impacted directly on Council decisions to invest or borrow resources.
The changes in anticipated resources which needed to be factored into the programme were as follows:-

- Revenue Contribution – Currently there was a proposed £400,000 contribution from revenue to supplement existing capital resources. In the Provisional Finance Settlement the Government was anticipated to announce the removal of Negative Revenue Support Grant (RSG) and the indication was that the financial impact of the proposed change would benefit the Council by circa £0.7m. This would be a non-recurrent re-alignment of funding. Given the non-recurrent nature of the proposed additional funding, it had been felt that the funding should be ring fenced to support likely and known pressures during 2019-20, specifically £0.4m to meet the costs of the car park changes detailed in the Car Park Strategy.
- Reserve utilisation of £4.5m for the Town Centre Regeneration. This scheme had previously been agreed by Council.
- Borrowing would be required to support the Capital Programme. The plan included £8m of borrowing to support spend on the Silverstone Enterprise Zone and also Pembroke Road. The revenue costs of the borrowing had been included in the agreed business plans. The level of borrowing would be managed in year and only actioned after cash balances had been utilised.
- Share of house sale receipts from VAHT - These flowed from the stock transfer agreement and ran for 25 years from the transfer date. The number of sales had been forecast to be 14 for 2018/19, with the same number being forecast for 2019/20 equating to sales of an estimated £1.5million. The number of residual RTB house sales had consistently fallen over the last couple of years.
- Asset Sales - These were sums released from the disposal of Council owned assets, mainly land or property. The generation of any significant receipts from the Council's current reduced asset base was no longer possible, but periodically

some small receipts were received from parcels of land and capital repayments from some loans. No asset sales had been assumed for 2019/20, but did include £0.440m in 2019/20 for AVE loan repayments

- Lottery, Grants & Section 106 – This related to external resources not related to asset sales.

A table was submitted showing the available resources at the beginning of 2018/19 and projected resources during 2018/19 and 2019/20, before any expenditure had been taken into account.

The Capital Programme had been appended to the Cabinet report. As it was split into three sections, Major Projects, Housing Schemes and Other Projects, these were covered separately.

**Major Projects:** The following were listed under the Major Projects section –Pembroke Road Depot, Silverstone Heritage Centre, Silverstone Enterprise Zone and the Town Centre Regeneration. The Capital Programme included the latest forecast costs for the individual schemes and reflected the current position.

**Depot - Pembroke Road**

- The scheme to develop the existing waste and recycling depot site at Pembroke Road continued. The scheme had been agreed by Council in October 2016.
- The total scheme cost was £9.2 million. The scheme included £1.9 million for the provision of expanded vehicle testing facilities and the business decision to continue with this element of the scheme was still under review.
- The report and business case had been predicated on the cost of the scheme being met from borrowing, whilst recognising that the amount might be reduced if there were additional capital resources received during the year. Expenditure incurred thus far for the scheme (mainly design and demolition) had been funded from the balances of unallocated capital resources. The Programme presented included an assumption of borrowing for the scheme. However, it was proposed that all unallocated capital resources were allocated in the first instance in lieu of borrowing as a mechanism to reduce borrowing costs. The borrowing costs had been included in the business case for the development.
- The review of resources undertaken within this report continued to balance the Council's need to invest in schemes with the anticipated unallocated resources available to it. Borrowing was not usually earmarked for individual purposes but instead intended to cover any gap between spending and income.

**Silverstone Heritage Centre**

- At its meeting on the 14th September 2016 Council had agreed to be part of a joint funding arrangement for a new Silverstone Heritage Centre by contributing £2 million by way of a loan facility.
- This levered a £9.3m Heritage Lottery fund award and financial commitments provided by surrounding councils and the two LEPS. Together, this provided a maximum loan facility.
- The Silverstone management team gave a presentation to the Finance and Services Scrutiny Committee in October 2018. Progress on the development was good and there was an anticipated opening date in the spring of 2019.

**Silverstone Enterprise Zone**

- In Autumn 2017 Council had agreed to provide Capital funding for enabling works for the Silverstone Enterprise Zone in the form of loan to be repaid from the additional Business Rates generated on site.

- Aylesbury Vale was the accountable body for the 3 Enterprise Zones and so borrowed the sums required for infrastructure development on behalf of the constituent bodies. It also collected the Business Rates payable and offset its borrowing costs from these receipts.
- There was no net cost to the Council of this decision, but the borrowing decision needed to be reflected to the Council's approved Programme.

**Westcott Innovation Centre**

- A Business case for the expansion of the Westcott Innovation Centre was currently being considered by the Aylesbury Vale Enterprise Zone Board. With a business funding model aligned to the Enterprise Zone, the Board was broadly supportive of the Scheme and so would be seeking AVDC funding of circa £1.5million for the business case. This would be presented for further consideration at a future meeting, with the intention that this be included in the final Capital Programme proposals being recommended to Council on 6th February.

**Town Centre Regeneration**

- At a meeting of Council on19 September, AVDC had agreed to invest in the rejuvenation of the Aylesbury Town centre public spaces. The planned investment into Kingsbury and Market Square would address the operational and aesthetic challenges, while making improvements to the safety, sustainability and accessibility of the areas. The improvements would also look to emphasise Kingsbury as the gateway to the old town, celebrating Aylesbury's rich heritage as a market town.
- The funding would be sourced from specifically earmarked funding and grants, including: existing Section 106 funding allocated to Aylesbury town centre, a Heritage Lottery Funding Townscape Grants bid and New Homes Bonus. This would enable AVDC to achieve its prospects without the need to borrow.
- Although Council required the scheme to be re-presented once further planning work had taken place, the full provision had been included in the Capital Programme in order to reserve the funding.

**Housing Schemes**

- The main element of funding within this category related to the Council's housing enabling function.
- The Programme presented proposed that all receipts from RTB and the affordable housing element of New Homes Bonus were ring-fenced for the purpose of affordable housing investment.

**Other Projects**

A number of new projects were included as well as provision for schemes that had been delayed for reasons outside of the Council's control.

- Notable other projects in this section of the Capital Programme included £1.25m for the purchase of new vehicles to support bringing the provision of the Street Cleaning and Horticulture contract in-house. The vehicles were required in order to provide the statutory functions of the horticulture services and would be required whether the existing contract was extended or the service brought in-house.
- The Programme allowed for a rolling replacement for 5 food waste vehicles.
- The car parking strategy agreed by Cabinet in December 2018 outlined a need for capital funding to upgrade payment equipment in AVDC car parks in other towns across the Vale. Provision for this equipment had been included in the

capital plan for 2019/20, together with a contribution from Revenue to fund the cost of these works.

- Finally, spend on Community Centre renewal, funded by the receipts from the sale of Elmhurst Community Centre some years ago, and also some play area renewal work. In these cases the prioritisation of Section 106 funds (of which £10m was held for open spaces and leisure purposes) would be made before any capital expenditure.

Members noted that the major development for the Exchange was due for completion in 2018/19 with no further expenditure planned. The Exchange scheme had commenced in January 2017 and consisted of restaurants, one and two bedroom apartments above and a new public square. The scheme also provided commercial space.

Council had approved a proposed Commercial Property Strategy including a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100,000 from the New Homes Bonus (NHB) Fund. Work was still on-going in order to timetable how these investments might be made and as such was summarised in the Programme but was subject to change with market conditions and as opportunities arose. As yet no draw down had taken place, and was now unlikely given the unitary decision.

Although not a funding pressure the Programme for 2019/20 included provision for a payment to be made for the transfer of deferred developer sums to Coldharbour Parish Council for the maintenance of the riverine corridor which ran through Fairford Leys. This sum had previously been provided by the developer for the maintenance obligations as part of the original land transaction. Transfer of this sum to the Parish Council had been previously agreed, but long delayed whilst the legal ownership was being resolved.

The CIPFA revised 2017 Prudential and Treasury Management Codes required, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.

The purpose of the Capital Strategy was to drive the authority's capital investment ambition over a 20-30 year time frame, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.

The Capital Programme for the Council would normally be a long term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings was very long term and as such should be considered accordingly in financial and asset management planning.

The development of the Capital Strategy for AVDC was disadvantaged by the uncertainty resulting from the unitary decision. However, to comply with statutory requirements, an expanded, but still abridged strategy, (reflecting a single year planning period) would still be presented alongside the Treasury Management Strategy in January 2019. However, the key principles of the strategy were set out below for contextual consideration.

The Capital Strategy for AVDC for 2019-20 would focus on core principles that underpinned the Council's Capital Programme in the short term only and the issues and the risks that would impact on the delivery of the programme; and the governance framework required to ensure the Capital programme was delivered and provided value for money for residents of Aylesbury Vale.

Within a shorter timeframe the focus of the capital strategy was towards the delivery and implementation of existing capital schemes.

Within the short term timeframe the Capital Programme might still be amended by the introduction of urgent, high priority capital schemes. The Programme would need to be flexible to ensure that the Capital Programme could incorporate schemes to meet the requirements or opportunities that might arise. As part of Capital Programme and resource management, schemes might be phased over multiple years due to factors such as complexity, resourcing, legal and planning requirements.

The development, management and monitoring of capital investments for 2019/20 would remain under the control of AVDC.

The overriding objective of asset management within the Council was to achieve a corporate portfolio of property assets that was appropriate, fit for purpose and affordable. The Council's property portfolio now mainly consisted of small land holdings and operational buildings i.e. offices, leisure facilities, public conveniences etc.

The Council was currently maintaining an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), had not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered.

The Council would not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance would be within forward approved Capital Financing Requirement estimates, and would be considered carefully to ensure that value for money could be demonstrated and that the Council could ensure the security of such funds.

Risk was an important aspect of the consideration of any proposed capital or investment proposal. The risks would be considered in line with the risk management strategies currently in place and commensurate with the Council's low risk appetite.

The Treasury Management Strategy for 2019-20, to be presented to Council for approval, would include detail on expenditure plans and the associated prudential indicators.

The development of capital investments beyond 2020 would ultimately be delivered by the new Authority.

RESOLVED –

That the principles adopted for the emerging capital strategy for 2019/20 and the updated Capital Programme appended to the Cabinet report, be approved for the purposes of scrutiny.