# FINANCE AND SERVICES SCRUTINY COMMITTEE

## 14 JANUARY 2019

**PRESENT:** Councillor M Rand (Chairman); Councillors B Everitt (Vice-Chairman), J Chilver, A Christensen (In place of M Smith), S Lambert, R Newcombe and G Powell (In place of A Waite)

**APOLOGIES:** Councillors J Bloom, M Stamp, R Stuchbury and A Waite.

## 1. MINUTES

RESOLVED –

That the minutes of the meeting held on 17 December, 2018, be approved as a correct record.

## 2. INITIAL BUDGET PROPOSALS 2019/20

The Scrutiny Committee received a report on the draft budget proposals for 2019/20 that had been considered by Cabinet in December 2018. The full details of the budget information and background concerning the budget proposals were set out in the minutes of that Cabinet meeting.

On 16 January, 2019, Cabinet would be agreeing the final recommendations to be proposed to full Council on the draft budget for 2019/20 which included the Medium Term Financial Plan (MTFP), the proposed level of Council Tax, and proposed fees and charges for 2019/20. In summary, Cabinet would be asked to recommend to Council the budget for 2019/20 and the MTFP including:-

(a) To take into budget planning the £1.916 million of proposed savings as set out within paragraph 4.6 of the 18 December, 2018 report.

(b) To take into budget planning the £2.354 million of forecast pressures as set out within paragraphs 5.2 and 5.3 to the same report.

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

(d) To the use of £1.48m of New Homes Bonus to meet the costs of the Connected Knowledge Programme in 2019-20.

(e) To agree the proposed fees and charges as set out in Appendix E to the report.

(f) For the level of the Band D Special Expenses charge for 2019/20 to remain unchanged (at £45) from the initial budget proposals.

The Scrutiny Committee was asked to indicate any comments / feedback that it wished Cabinet to take into account in recommending the budget to full Council.

The Cabinet report highlighted that there was still uncertainty around a number of issues particularly further reductions in Government Grant, retained business rates and the New Homes Bonus. In the few weeks since the initial proposals had been considered by Cabinet, work had continued to refine the budget assumptions. In practice, little had materially changed at a service level and so the significant elements of the final budget proposals were around the impact of the proposed Government Grant numbers and changes to other centrally funded support.

Members were asked to note the outcome of the provisional local Government settlement for 2019/20 announced on 13 December 2018 and the impact on the final budget proposals. The main factors of the finance settlement were:

- Updated Core Spending Power figures.

- Confirmation of continuing cuts to RSG.
- Removal of Negative RSG.
- Increases to RSDG (+£16m) and NHB (+£18m) Funding.
- £180m released from the BRR levy account.
- Provisional Social Care Allocations of £650m (Budget 2018).
- 15 new 75% Pilot areas announced for 2019/20 (and 7 back to 50%).
- No changes to the Council Tax referenda principles (aside from Police).

Specifically for AVDC:-

- The important numbers of Revenue Support Grant and Baselined Business Rates were virtually the same as those announced for 2019/20 last year within the 4 year settlement. 2019/20 represented the last year of the 4 year settlement.
- AVDC was better off by £690,000 due to the removal of Negative Revenue support grant. This non-recurrent benefit had largely been foreseen and had been earmarked to support growth.
- Buckinghamshire had been awarded Pilot Status for 75% Business Rates Retention in 2019/20. The actual gain from this wouldn't be known until the year end but it was estimated this could be circa £1.6 million for AVDC.
- The Government had heeded sector concerns about the dangers of reducing the benefit from NHB and had decided to leave the thresholds unchanged. AVDC would therefore receive £5.9 million next year under this scheme, approximately £100,000 more than estimated.

The final funding allocation for the 2019/20 settlement will be laid before the House of Commons in February 2019.

Members referred to the Cabinet reports, updated information and appendices whilst considering this matter. They requested further information and were informed:-

(i) that the agreement to participate in the new 75% business rates retention pilots 2019/20 had been due to agreement across Councils on how additional money would be used and a desire for greater co-operation.

(ii) with an explanation was provided on the need to make the budget provision of £250,000 made in relation to anticipated reductions to rent and service charge recovery across the Council.

(iii) with details of the ongoing legal challenge to a significant group of rateable properties within the Vale. It was unlikely that this matter would be considered by the courts before October 2019.

Officers agreed that consideration could be given to including this issue in the Council's Risk Register.

(iv) that the provisions for car parking changes (Cabinet report paragraphs 6.20 and 6.21) related to changes in Aylesbury only. It would be difficult to make provisions for car parking changes at Wendover, Winslow and Buckingham as this information would not be known until reports came forward later in the year. However, the Council maintained a car parking reserve which could be utilised to fund changes for these locations.

(v) that while the Government met the cost of Universal Credits benefits paid to people, the Council had some residual administration costs that had to be paid for.

(vi) that Staff Side and unions were balloting staff on a 2.5% pay settlement for 2019/20. If approved by staff, then the matter would be submitted to full Council for final approval.

(vii) that the Council believed that the £5m earmarked would be sufficient to meet AVDC's share of transition costs to the new Buckinghamshire Council.

(viii) that AVDC was a leader amongst Councils in investing in IT and customer interface solutions. As such, the commitment of £1.48m of NHB monies in the budget to meet the costs of the Connected Knowledge Programme in 2019/20 would ensure that completed work was able to be handed over to the new Council in the best possible state.

(ix) that the increase in the total budget of the Aylesbury Special Expenses of £38,200 was due to an increase in the Council tax base. The level of the Band D Special Expenses charge for 2019/20 was proposed to remain at £45 p.a. Information on expenditure against the Aylesbury Special Expenses was reported quarterly to the scrutiny committee with the Finance Digest.

(x) that Cabinet had approved a new contract for materials recycling in April 2018. The contract had been awarded following a procurement exercise that had been undertaken jointly with Cherwell District Council.

(xi) that the Council had a separate reserve provision relating to business rates appeals.

(xii) that the primary cost associated with resources for the Connected Knowledge Programme (Appendix F) related to staffing costs for projects.

(xiii) that clarification on the fees and charges for Play Services and Play Around the Parishes (Cabinet report, Appendix E) would be provided to Cabinet. For example, the Jonathan Page Play Centre was now operated by the Aylesbury Town Council.

(xiv) by the Cabinet Member for Communities that he would be asking Cabinet to re-instate £10,759 in funding for a number of voluntary and community sector organisations including the Citizens' Advice Bureau. He would also be exploring whether it would be possible to extend the grant funding arrangements with some of these organisations for 1-2 more years to provide them with some certainty while the new Council was being established.

Members also commented:-

- that they were supportive of the monies from the Interest Equalisation Reserve and the Business Rates Equalisation Reserve being earmarked and used to offset the transition cost of local Government reorganisation.
- that, should the Cabinet be minded to recommend to Council the £1.48m in funding for Connected Knowledge, the Council needed to ensure that the individual business cases within the programme were assessed on the likelihood of the work/benefits that might be able to be carried forward into the new Council before investment decisions were made. This included looking at expenditure that could reasonably be deferred.
- that increases in Council tax should be used primarily to fund the provision of services to residents.

- that they were supportive of the extra £690,000 that the Council would have due to the removal of Negative Revenue Grant support being earmarked to support growth.
- that they were supportive of another bidding round of NHB grants being made available to parishes during 2019-20.

RESOLVED –

(1) That the scrutiny committee was supportive of Cabinet's budget proposals for 2019/20 together with the Medium Term Financial Plan, as detailed in the reports to Cabinet on 18 December 2018 and 16 January 2019.

(2) That Cabinet be asked to take into account scrutiny's comments in finalising the budget proposals for 2019/20 to be submitted to full Council.

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

The Council's Capital Programme was reviewed annually with the current programme being last approved and adopted at Council in February 2018.

Cabinet had considered a report on 18 December 2018 on the capital programme for the current year, as well as for the updated programme for 2019/20 onwards. The report provided an updated position with respect to forecast receipts and the position with regards to current and future major investment projects. It also incorporated changes made since February 2018 and reflected these in the overall resources projections. The full details of the capital programme and background were set out in the minutes of that Cabinet meeting.

Cabinet had approved the updated Capital Programme for the purposes of scrutiny. Any feedback from scrutiny would be considered by Cabinet on 16 January 2019 in making final recommendations to full Council.

The Cabinet report made reference to an additional request for funding from the Aylesbury Vale Enterprise Zone Board for an investment proposal at Westcott. Additional information had now been received in respect of this scheme and the business case presented to the Enterprise Zone Board was summarised at paragraphs 3.4 to 3.25 inclusive of the scrutiny report.

The investment proposal related to £1.2m of funding for a Space Catapult Innovation Centre, comprising a £600,000 loan and a £600,000 grant. As its Accountable Body, the Enterprise Zone Board was seeking for AVDC to borrow the £1.2m funding and to recover this (plus any interests costs) from the EZ retained business rates. Details of how the repayments would be made was set out at paragraphs 3.17 to 3.19.

An independent business case appraisal had been undertaken in November 2018 by Hewdon Consulting and had concluded that the project was robust and that the Innovation Centre as now proposed would be a positive addition to the Westcott Space Cluster.

The Scrutiny Committee considered the 18 December 2018 Cabinet report and the scrutiny report.

The following changes in anticipated resources would need to be factored into the programme:-

- Revenue Contribution – a proposed £400,000 contribution from revenue to supplement existing capital resources. The removal of the Negative Revenue

Support Grant was also expected to benefit the Council by approximately £700,000. It had been recommended to Cabinet that the funding 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.
- £8m borrowing to support spend on the Silverstone Enterprise Zone and also Pembroke Road.
- Share of house sale receipts from VAHT, although the number of residual RTB house sales had consistently fallen over the last couple of years.
- Asset sales – no asset sales had been assumed for 2019/20, although it was forecast that £440,000 would be received from AVE for loan repayments.

It was noted that the available resources as at the beginning of 2018/19 and the projected resources during 2018/19 and 2019/20 before any expenditure had been taken into account were as follows:-

| | **Current Resources April 2018 £'000s** | **Resources Projection March 2019 £'000s** |
|---|---|---|
| Balance of Capital Resources | **8,311** | **6,131** |
| Share of Right to Buy Receipts | 1,500 | 1,500 |
| Asset Sales | | |
| Lottery, Grants and Section 106 | 2,080 | 4,940 |
| Revenue Contributions (NHB) | 327 | |
| Revenue Contributions | | 400 |
| **Total End of Year** | **12,218** | **12,971** |

The capital programme was attached as Appendix A to the Committee report and was split into three sections, Major Projects, Housing Schemes and Other Projects. Information on these areas was covered separately.

Listed under the Major Projects section was information on the Pembroke Road depot, Silverstone Heritage Centre, Silverstone Enterprise Zone, Westcott Innovation Centre and the Town Centre Regeneration.

The man element of the Housing Schemes 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.

A number of new projects were included in the 'Other Projects' section, as well as information on schemes that had been delayed for reasons outside of the Council's control. Notable Other Projects included £1.25m for the purchase of new vehicles to support bring the provision of the Street Cleansing and Horticultural Contract in-house, capital funding to upgrade payment equipment in AVDC owned car parks, and expenditure on Community Centres renewals. This last expenditure would be funded by the receipt from the sale of the Elmhurst Community Centre. No further expenditure was expected for the Exchange major development.

Members were informed that work was ongoing to establish a timetable for the Commercial Property Strategy that had been approved by Council. No expenditure had been incurred against the Strategy and was now unlikely to happen given the unitary decision.

The 2019/20 programme also included provision for a payment to be made for the transfer of deferred developer sums to Coldharbour Parish Council for the maintenance of the Fairford Leys Riverine Corridor.

The Scrutiny Committee was lastly informed that the report contained information on the Capital Strategy and the Treasury Management Strategy for 2019/20, although this would be the subject of a separate agenda item considered at the meeting.

Members requested further information and were informed:-

(i) that all of the £2m loan to the Silverstone Heritage Experience, that was due to open to the public in April 2019, had been drawn down. An explanation was also provided of the arrangements in place for repaying the loan.

(ii) with details on the proposed £1.2m (split into a £600,000 Loan and a £600,000 grant) funding to be provided to the Space Catapult Innovation Centre at the Westcott Enterprise Zone. The loan would be recovered (plus any interest costs) from the EZ retained business rates.

(iii) that the £341,000 for Community Centre improvements represented monies from the sale of the Elmhurst Community Centre. Improvements would be made to Alfred Rose park and the Alfred Rose Community Centre, although it was also anticipated that some of the monies would be used for maintenance of other Community Centres in the Aylesbury Special Expenses area.

(iv) that the Aylesbury Vale Estates (AVE) Business Plan for 2019-22 would be submitted to Cabinet on 16 January, 2019.

(v) that the information and forecasts for Housing Schemes and right to buy receipts were based on receipts received during the past few years.

(vi) that the information at paragraph 7.2 of the Cabinet report (Capital Strategy) related to maintaining and improving Council owned properties. The Council only owned one residential property.

During discussions Members commented that they were supportive of the use of residual Right to Buy capital receipts and nominal sums from New Homes Bonus for affordable housing, to fund new affordable housing schemes. They were also supportive of the funding proposal for the Space Catapult Innovation Centre at the Westcott Enterprise Zone.

RESOLVED –

That the updated capital programme for the period 2019/20 to 2022/23, as set out in Appendix A of the Cabinet report, be endorsed.

## 4. TREASURY MANAGEMENT STRATEGY 2019-20

The Committee received a report on the Treasury Management Strategy for 2019/20. The Treasury Management Statement, Treasury Management Strategy Statement and the Annual Investment Strategy, attached as appendices to the Committee report, would be reported to full Council in February for approval.

The annual Treasury Management Strategy included Prudential Indicators that were used as part of the self governance framework. The Committee report provided supplementary background information to the Strategy and summarised a number of issues. The key messages were:-

- Investments – the primary governing principle would remain with security over return and this was reflected in the criteria for selecting counterparties.
- Borrowing – overall, this remained fairly constant over the period covered by this report and the Council would remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
- Governance – strategies were reviewed by the Audit Committee with continuous monitoring which included Mid-Year and Year End reporting.

The Prudential Code for Capital Finance in Local Authorities (the Code) was a professional Code that set out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best met their service delivery objectives as long as they were affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons.

The Code required the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management. The indicators also formed the basis for in-year monitoring and reporting.

The limits and indicators that the Authority were required to determine by the code were:-

**Capital and Debt Indicators**

- Capital Expenditure – represented the agreed Capital Programme and set out the planned capital expenditure over the next three years.
- Capital Financing Requirement – the amount the Authority needed to borrow in order to deliver its Capital Expenditure plans.
- Affordability Index – this was the proportion of the Authority's income that was taken up by loan repayments and interest. The more the Authority borrowed the less was available for delivering services.

**Treasury Management Indicators**

- Exposure to Interest Rate Risk – the maximum proportion or borrowing which could be on either fixed or variable interest rates. By setting a maximum proportion a limit was placed on the amount by which the Authority's finances could be affected by movements in base rates.
- Maturity Profile – the maximum length of time over which borrowing could be taken. Authorities could borrow for any length providing they could afford to do so.
- Authority Limit – the combined maximum amount the Authority could take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes.
- Operational Limit – the amount the Authority realistically expected to borrow and represented the figure that the Authority would not expect to exceed on a day to day basis.

The Strategy had been drawn up in association with the Council's treasury management advisors, Link Asset Services and reflected up to date information and advice.

The Committee was informed that the Council's capital expenditure plans were the key driver of treasury management activity. The Capital Programme for 2019/20 had been considered separately at the meeting and provided forecasts of receipts and the position with regards to current and future major investment projects. A total capital spend of £22.12m had been proposed for 2019/20.

A number of changes in respect of anticipated resources have been factored into the programme and were detailed in the report. These included a planned contribution from revenue, the use of reserves and also Lottery, Grants and Section 106 which related to external resources not related to asset sales.

Borrowing would be required to support the capital programme. The plan included £9.28m of borrowing to support spend on Silverstone and Westcott Enterprise Zones and also on Pembroke Road. The revenue costs of the borrowing were included in the agreed business plans. The level of borrowing would be managed in-year and only actioned after cash balances had been utilised.

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.

The Council had a Commercial Property Strategy which included 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. As yet no draw down has taken place, and this was increasingly unlikely to be actioned in 2019/20. The objective of the scheme was to generate new streams of income to help offset the significant cuts in Government funding and to ensure sufficient finance was available to support the continued delivery of and investment in services to the local community.

In December 2017, CIPFA had issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions had particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income.

The treasury management reports for 2019/20 take account of the CIPFA Code of Practice on Treasury Management 2017 and the CIPFA Prudential Code 2017. The Prudential Code 2017 introduced a new requirement for local authorities to produce an annual capital strategy.

There were also proposals in relation to IFRS arising from the 2018/19 Accounting Code of Practice proposals for financial assets. Whilst for many this was not a significant issue, there were technical changes in relation to expected Credit Loss Model and also equity related to the "commercialism" agenda, property funds, equity that needed to be considered..

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council would consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. IFRS 16 replaced IAS 17 Leases and its related interpretations. It would apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard would have substantial practical implications for local authorities that currently had material operating leases, and were also likely to have an effect on capital financing arrangements.

Other matters covered in the report included:-

- that the Council's investment priorities would be security first, portfolio liquidity second and then yield (return).
- the Council's investment policy had regard to the following:-
    - MHCLG's Guidance on Local Government Investments ("the Guidance").
    - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code").
    - CIPFA Treasury Management Guidance Notes 2018.

- A number of changes were proposed for the 2019-20 Investment Strategy that was included at Appendix A-4 to the Committee report:-
  - changes to the counterparty limits for banks so that A rated banks were also available for deposits up to 1 year. Individual limits had also been increased so that A rated was £5m, AA rated was £7.5m and AAA rated was £10m.
  - this could be justified as recent changes to the stress testing that banks went through had become far more stringent. To qualify as an A rated entity, banks needed to be far more secure and have many more liquid assets than previously rated at AA or even AAA.
- The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy that was included at Appendix A-7 to the Committee report. While the Capital Strategy was meant to drive capital investment ambition over a 2-30 year period, it was overshadowed by the unitary decision which only gave the Council the ability to plan for a single year.
- an update on the current economic background including for the UK economy. It was currently forecast that the Monetary Policy Committee would increase the Bank Rate twice more by 0.25% each time by 2020 to end at 1.50%.
- that last year the use of Property Funds had been included within the Strategy as an alternative long term deposit to the use of Fund Managers. However, the use of Property Funds for investment had not been engaged for 2018-19.
- information on investments and loans as at 31 December 2018, as follows:-
  - Borrowings – Fixed Rate Funding - £17.694m at an average rate of 4.114%
  - Investments – Fixed Rate and Notice Account Investments - £44.694m at an average rate of 0.803%.
- that the authority has previously operated an Interest Equalisation Reserve to smooth out fluctuations in interest rates. With returns on investment higher than budget, by the end of 2018/19, the interest equalisation reserve was estimated to be £2.053 million. Cabinet had now agreed that the reserve could be utilised to support the transitional costs of the unitary decision.

Members requested further information and were informed:-

(i) that the Council hoped not to have to borrow for the Pembroke Road Depot scheme as the Council was currently underborrowed, although it was acknowledged that interest rates for long term borrowing were still at near to historic low levels.

(ii) that it was not the Council's practice to borrow monies just for investment.

(iii) an explanation was provided on the Annual Investment Strategy (Appendix A4).

Members also commented that it would be sensible in advance of the establishment of the new Buckinghamshire Council for AVDC not to draw down and commit to investments via the Commercial Property Investment Strategy.

RESOLVED –

(1) That Council be recommended to approve the Treasury Management Strategy for 2019/2020, along with the Prudential Indicators, the Minimum Revenue Provision policy provision and the Capital Strategy 2019-20, as detailed in the appendices to the report.

## 5. PUBLIC SECTOR EQUALITY DUTY

Section 149 of the Equality Act 2010, the Public Sector Equality Duty (PSED), came into force on 5 April 2011. The objective behind the duty was to ensure that consideration of equality issues formed part of the routine, day-to-day decision making and operational delivery of public authorities. In summary, it required that the District Council, in the exercise of its functions, had due regard to the need to:

- eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Equality Act.
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not by:
    - Removing or minimising disadvantage that people in the protected groups suffer because its connected to that protected characteristic
    - Take steps to meet the needs of people from the protected groups where these differ to those of other people
    - Encourage participation from protected groups in public life or other activity where their participation was disproportionately low
- foster good relations between persons who share a relevant protected characteristic and those who do not by:
    - Tackling prejudice.
    - Promoting understanding.

The protected characteristics were age, disability, gender reassignment, marriage or civil partnership, pregnancy and maternity status, race, religion or belief, sex, sexual orientation.

Following the introduction of the Equalities Act 2010 (Specific Duties) Regulations 2011, the Council had published a statement in 2012 on how the Council was meeting the Public Sector Equality Duty. The regulations were designed to ensure that public bodies were transparent about their compliance with the Equality Duty. And, by publishing information about their equality performance and objectives, public bodies would be accountable to the people and communities they served.

The Committee received a report which provided an assessment (Appendix 1) of the Council's performance against the Public Sector Equality Duty and which had been updated in light of the Council's performance assessment for 2018, and also demonstrated that AVDC was complying with the general Equality Duty. This included information about the population of the District, information about Council staff and what AVDC was doing to meet the equality duty. The information would be considered by Cabinet on 16 January 2019, with a view to publishing an updated Public Sector Equality Duty statement on how AVDC was continuing to meet its statutory duty.

While the Scrutiny Committee was satisfied with the assessment given of the Council's performance against the Public Sector Equality Duty for 2018, Members suggested that future reporting should include some information on why there were generally more females in the SG4 and SG5 grades.

Members commented that the pay equality position at AVDC was excellent.

RESOLVED –

That AVDC's Equality Report and performance for 2018 be noted.

## 6. FUTURE WORK PROGRAMME

The Committee considered their work programme for the period until December 2019. The agenda for future meetings would be:-

**8 April 2019**: Debt Management report, Quarterly Finance Digest (Q3)

**2 July 2019**: Leisure Centres Management Contract, Quarterly Finance Digest (Q4), Treasury Management 2018-19 Year End report.

**9 September 2019, 11 November 2019 and 16 December 2019**: No agenda items as yet

RESOLVED –

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