

**Wards affected:**

All Wards

**MEDIUM TERM FINANCIAL PLAN [2013/14 TO 2016/17]**

Author: Tim Hannam, Corporate Director Resources MK 252756

Nicole Jones, Assistant Director Financial Management MK 252079

**1. RECOMMENDATIONS**

1.1 Cabinet is recommended to:

1.1.1 Note the financial forecast set out in Table A and the other issues in relation to both resources and expenditure which are reflected in the framework for the 2013/14 Budget and Medium Term Financial Plan.

1.1.2 Note the key assumptions that underpin the financial forecasts for the next four years and the associated risks.

1.1.3 Note that this report highlights an indicative savings requirement of £59m over the four year period 2013/14 to 2016/17 (see Table A), which requires the Council to drive forward its strategy to bridge the funding gap as set out in section 14 of Annex 1.

1.1.4 Invite the Corporate Leadership Team (CLT) to develop detailed recommendations to address the medium term funding gap.

1.1.5 Endorse the Financial Principles as set out in paragraphs 2.1 and 15.1 of Annex 1, as a sound basis for the future financial management of this Council.

**2. RELATED DECISIONS**

2.1 Previous decisions in this context relate to:

2.1.1 Medium Term Financial Plan for 2013/14 to 2016/17 approved by Cabinet on 14th February 2012.

2.1.2 The Housing Revenue Account Budget Report 2012/13 agreed by Council on 10<sup>th</sup> January 2012

2.1.3 The 2012/13 Budget agreed by Council on 21st February 2012.

**3. INTRODUCTION**

3.1 The purpose of this report is to update the Medium Term Financial Plan (MTFP) for the next four years, covering the financial period 2013/14 to 2016/17. The MTFP includes the General Fund Revenue Account, the Capital Programme and the Housing Revenue Account

3.2 The Medium Term Financial Plan (MTFP) is regularly updated as it evolves and develops throughout the year, to form the framework for the Council's financial

planning. To ensure Members have sound basis for planning and decision making, the MTFP is formally updated at three key points in the year these are:

- February – with the Final Budget for the new financial year.
- June/July – as a framework for initial detailed budget discussions for the forthcoming financial year
- November – an update to include additional information received at a national level and corporate issues identified through service planning and the detailed budget build.

3.3 The purpose of the MTFP is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that the Council’s resources are managed effectively in order to meet its statutory responsibilities and deliver the aspirations of the Council as set out in the Corporate Plan, over the medium term.

3.4 The most significant issue for this MTFP is the uncertainty surrounding future Government funding, as detailed in section 7 of Annex 1. The economic climate and the Government’s deficit reduction strategy have resulted in reductions in Local Government funding. Further reductions are expected for the medium term, but the lack of detail regarding a number of proposed changes makes it difficult to forecast the exact extent of these reductions. This plan outlines a position based on national assumptions, but this position will change following further detailed announcements. Changes will be reflected in future updates of the Medium Term Financial Plan and will be incorporated into the detailed budget planning process for 2013/14.

3.5 The other major significant risk is the localisation of Council Tax Support (see paragraphs 8.10 to 8.23 of Annex 1). The Council is planning to consult on options for a local policy to mitigate the loss of up to £3m income from the total Collection Fund, of which £2.6m would be a loss to Milton Keynes Council and Town and Parish Councils. If a local policy to mitigate this loss is not introduced, the financial gap of £13.5m for 2013/14 (Table A) will increase.

#### 4. SUMMARY OF REVENUE POSITION

4.1 The MTFP updates the forecast resources and expenditure for the Council for the period 2013/14 to 2016/17. This includes a number of detailed assumptions including likely Government funding, future pressures and the savings identified to date. Overall this results in the following projected shortfalls for the medium term:

**Table A: Summary of Revenue Position**

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
<b>Forecast Resources</b>	(192.328)	(185.419)	(177.393)	(174.924)
<b>Forecast Expenditure</b>	205.797	200.193	195.644	187.162
<b>Annual Shortfall</b>	13.469	14.774	18.251	12.238
<b>Cumulative Shortfall</b>	13.469	28.243	46.494	58.732

- 4.2 A prudent approach has been taken to identifying this medium term position. There are a number of uncertainties and risks which will affect the overall position, but there is insufficient detail to confirm the final impact at this time. For these items a prudent estimate has been incorporated into these headline figures.
- 4.3 The Council is advised to continue with the implementation of its strategic approach to address the funding gap, arising from both national funding reductions and increased demand for services through the following:
- Delivering savings through the Organisational Transformation Programme.
  - Renegotiating the Council's contracts to improve value for money and reduce costs.
  - Improving efficiency and opportunities for cost reduction through improved; procurement, commissioning and shared services.
  - Implementation of proposals agreed under Working Better Together and further review work on other aspects of the contract with Mouchel Business Services.
  - Generation of additional income through new opportunities and changes to current fees and charges.
  - Consideration of the transfer of some services to those who are best placed to deliver them e.g. Parish Councils and Voluntary Organisations.
  - Focusing service delivery on Council priorities, which may result in some services either ending or being reduced.
- 4.4 The detailed budget process is currently ongoing which will allow these issues to be discussed with individual service groups, to enable further savings and cost reductions to be identified.
- 4.5 It is likely that the timing of savings will not precisely match the funding gaps currently being projected. There may also be additional one-off costs to implement the transformation required. The intention is to use the one-off resources currently unallocated (see Table 12 of Annex 1) to manage a two year savings strategy. Providing that ongoing savings (or reductions in pressures) have been identified over the two years, the phasing can then be managed to ensure deliverable and practical savings solutions can be implemented. This will require a much greater focus on the accuracy of the 2014/15 projection alongside 2013/14.

## **5. SUMMARY OF CAPITAL**

- 5.1 The MTFP includes an update of the forecast resources and indicative expenditure over the medium term which can be shown as follows:-

**Table B: Summary of Capital Position**

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Total Capital Resources (Table 16)	78.857	63.505	56.217	195.242	393.821
Total Capital Expenditure (Table 17)	59.818	68.161	55.015	206.481	391.598
<b>Net position</b>	<b>(19.039)</b>	<b>4.656</b>	<b>(1.202)</b>	<b>11.239</b>	<b>(4.346)</b>
<b>Cumulative Position</b>	<b>(19.039)</b>	<b>(14.383)</b>	<b>(15.585)</b>	<b>(4.346)</b>	

- 5.2 This shows that the Council's current expenditure needs can be met over the medium term through the re-phasing of schemes, as sufficient resources are available in 2013/14 to be carried forward for future years. However, this position is dependent on the re-examination of asset management requirements, which is currently ongoing and confirmation of future income. This also depends on the flexibility of uncommitted resources, as some capital funding is ring-fenced.
- 5.3 There are also a number of major schemes where the costs of the scheme and the timing of expenditure are unknown. It is likely that the combination of additional short-term pressures and new major schemes will mean that capital resources will need to be prioritised over the medium term.
- 5.4 This year the Council has also developed a 15 year view of the capital investment needs (see Annex 1a). This is an initial view of future needs, incorporating the long-term strategy to address backlog maintenance for highways and transport infrastructure (included elsewhere on this agenda). While this capital investment schedule still requires more work in some areas, it is an improvement to the previous medium term view of capital requirements, as it begins to enable a long-term funding strategy to be developed.
- 5.5 The Council has also published a high level Local Investment Plan (LIP) for consultation in May. This plan outlines the investment required to deliver infrastructure to support the growth of Milton Keynes. The detailed LIP will be produced alongside the Council's Medium Term Capital Programme and long-term investment requirements. This will result in a draft LIP and Capital Programme being published for consultation in November and a final LIP being submitted to Cabinet in February.
- 5.6 Further work on the investment requirements and an assessment of resource opportunities will be reflected in the development of the Medium Term Capital Programme and future Medium Term Financial Plans.
- 5.7 The financial implications of the HCA assets and Tariff are not included in the MTFP at the current time. Should the assets and Tariff transfer to the Council, the financial implications will be reflected in future Medium Term Financial Plan and Capital Programme updates.

## 6. SUMMARY OF HOUSING REVENUE ACCOUNT

- 6.1 From 1<sup>st</sup> April 2012, the Housing Revenue Account has been operating under the self-financing arrangements. This essentially means that the Housing Revenue Account took on £172m of debt and the costs of financing that debt, in return for buying itself out of the housing subsidy programme. Milton Keynes had previously received a negative subsidy (i.e. it had to make a contribution to the national pool).
- 6.2 The main difference for the Housing Revenue Account under self –financing, is that the only income available to the fund is from rents and other charges. This funding must be used to pay the debt financing costs and to maintain the houses (and other assets) for tenants. It is therefore important to consider the long-term position for the Housing Revenue Account to ensure it remains sustainable.
- 6.3 Work is currently ongoing to complete a more detailed review of the stock condition to inform the refresh of the Asset Management Plan. This information will support decisions on future asset management, including the identification of properties where it may be better to carry out major renovation or refurbishment works, rather than to continue with ongoing repairs and maintenance.
- 6.4 While work is currently underway on planning major regeneration works, which will affect the HRA, the financial implications of these changes are not yet known. However, there will clearly be a significant cost to this work.
- 6.5 The MTFP includes a projection of the income and expenditure for the Housing Revenue Account which can be summarised as follows:

**Table C: Summary of Housing Revenue Account**

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
<b>Income</b>	(59.479)	(62.129)	(65.347)	(65.471)
<b>Expenditure</b>	60.319	62.129	65.103	65.227
<b>Net in-year (Surplus) / Deficit</b>	<b>840</b>	<b>0</b>	<b>(0.243)</b>	<b>(0.243)</b>
<b>Reserve b/fwd</b>	(4.939)	(4.100)	(4.100)	(4.343)
<b>Reserve c/fwd</b>	(4.100)	(4.100)	(4.343)	(4.586)

## 7. ANNEXES

- 7.1 The follow documents are appended to this report:

Medium Term Financial Strategy	Annex 1
Long-term Asset Investment Plan	Annex 1a
Housing Revenue Account Budget	Annex 1b

## 8. IMPLICATIONS

### 8.1 Policy

The Council's Budget and Medium Term Financial Plan are the financial expression of all the Council's policies and plans.

### 8.2 Resources and Risk

Yes	Capital	Yes	Revenue	Yes	Accommodation
Yes	IT	Yes	Medium Term Plan	Yes	Asset Management

### 8.3 Carbon and Energy Management

### 8.4 Legal

Decisions on the budget and the calculation of the Council Tax are ones which only the full Council can make on the recommendation of the Cabinet. When considering decision on the budget and the level of Council Tax, Members should have regard to the legal framework for such decisions. Adopting the recommendations set out in this report will enable the Council to set a lawful balanced budget.

### 8.5 Other Implications

No	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
Yes	Carbon and Energy Policy				