MEDIUM TERM FINANCIAL PLAN 2013/14 TO 2016/17

1. BACKGROUND

1.1 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 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/December – an update to include additional information received at a national level and corporate issues identified through service planning, and the detailed budget build.

1.2 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 resources are managed effectively and are able to deliver the aspirations of the Council as set out in the Corporate Plan, over the medium term.

1.3 The detailed sub-sections within the report, with page numbers where these can be found, are set out below:

Medium Term Financial Strategies

Medium Term Financial Position

Forecast Resources over MTFP Period

MEDIUM TERM FINANCIAL STRATEGIES

2. Principles underpinning the Budget Strategy

2.1 The Council has a number of agreed principles as a basis for financial management and budget planning. These have previously been approved by the Cabinet. These are summarised below:

- Emerging pressures are managed within existing cash limits
- Spending is aligned to key priorities as set out in the Corporate Plan
- Income is only included in budget where supported by robust proposals and is deliverable
- Future liabilities are anticipated
- Budgets are sustainable

- Base Budget / One-off expenditure/ Capital expenditure are distinguished
- Savings proposals are supported by project plans and the impact on service delivery is clear.
- The allocation of capital resources is separate from expenditure approval
- Capital and revenue planning needs to be integrated to ensure implications are fully anticipated
- The use of specific grant funding does not lead to revenue budget pressures
- The Council reduces its dependency on reserves to balance the Budget

2.2 The national Government deficit reduction strategy has resulted in reductions in local government funding since June 2010. The announcements made in the Budget 2012 include public sector funding reductions until and including 2016/17. This confirms the position that funding reductions will at least be in place for the whole of this MTFP, although general opinion indicates economic recovery could lead to further reductions beyond this period.

2.3 This means funding reductions and the continued need to reduce public sector costs will remain a key part of the 2013/14 Budget and this MTFP. 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/ New Ways of Working 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.

3. Resourcing Council Priorities

3.1 The Council is working to improve the links between corporate and service planning, the MTFP and the annual budget. This is to ensure that the 2013/14 Budget reflects the priorities of the Council and that service plans explain consistently how priorities will be delivered with the resources available. The MTFP creates the framework for resource allocation decisions that will support the delivery of the Corporate Plan.

3.2 The Corporate Plan was agreed by Full Council on 10th January 2012 and has been used as a basis for the planning assumptions in the MTFP. This plan sets out a vision and outcomes for Milton Keynes together with a series of priority actions to provide a shared framework for both the Council and its partner organisations. It also includes details of the Council's Organisational Transformation Programme.

3.3 In order to confirm the priority framework for the Budget and MTFP a Strategic Policy Assessment was carried out, to support a review of the Corporate Plan. This Strategic Policy Assessment highlighted the current key issues for Milton Keynes and was used as a basis to ensure the Corporate Plan outlined priorities to address these issues.

3.4 This Strategic Policy Assessment process confirmed that the Corporate Plan effectively outlined the priorities for Milton Keynes. A subsequent review of the delivery routes that contribute to stated priorities has ensured a strengthened focus on the delivery of these priorities and the outcomes they will achieve.

3.5 The integration of service and financial planning continues to be strengthened; this year workforce planning has been incorporated to ensure that the Council is considering the use of all resources not just financial in delivering its priorities. Detailed service plans to deliver the ambitions and priorities contained within the Corporate Plan, will be refreshed alongside the development of the Budget and MTFP.

3.6 The performance management framework to support delivery of the Corporate Plan has been strengthened by the introduction of a quarterly Corporate Performance Challenge process through which the Corporate Leadership Team reviews the performance of Service Groups. The format and content of quarterly performance reports has been changed to align to the priorities in the Corporate Plan, including a review of key performance indicators that measure the delivery of priorities.

3.7 In May 2012 the Council published its first Local Investment Plan (LIP) for consultation. This was a high level strategy document which begins to outline some of the infrastructure investment required to support the future growth of Milton Keynes. The LIP will continue to be developed alongside the Council's long-term investment programme and Medium Term Capital Programme, with a draft detailed LIP being published in November for consultation and the final LIP being proposed for Cabinet in February.

3.8 The aspirations set out in the Corporate Plan provide the framework for the prioritisation of resources both at Council and service level and are therefore being considered as part of the detailed budget process for 2013/14; MTFP and service planning process.

4. MTFP Linkages with other Corporate Strategies

4.1 There are a number of corporate strategies which shape and influence the Council's resources, both financial and non-financial and set frameworks to ensure that the Council's spending power is maximised. This section of the MTFP contains a brief summary of the progress against the plan, its impact on financial resources and planned future activity. The corporate strategies outlined are as follows:

- Organisational Transformation Programme
- Workforce Development Strategy
- Procurement Strategy
- Public Access Strategy
- ICT Strategy

- Property Strategy

Organisational Transformation Programme

4.2 The Organisational Transformation Programme (OTP) has been reviewed. The new suggested programme and more detail on the delivery of the current OTP is elsewhere on this Cabinet agenda.

4.3 A number of the projects included in the previous OTP have been successfully completed, or have now become business as usual following the transformational activity, for example the successful delivery of Housing Self-financing; the creation of the Regulatory Unit; the licensing of the Casino; the Community Asset Transfer Programme and Phase 1 of the Children's Services Reorganisation.

4.4 However a number of projects are still ongoing and will continue to be included in the OTP. These projects are expected to make a considerable contribution to both the transformation of the Council and the delivery of the funding gap outlined in Table 15. For example, the Public Access Strategy, the Residual Waste Treatment Facility and Highways Contracting (the Outline Business Case is also elsewhere on this agenda).

4.5 The current OTP has delivered £0.600m of savings which were included in the 2011/12 budget and is on track to deliver £1.600m of savings in the 2012/13 budget. The OTP savings have made a significant contribution to the savings requirements in previous years and its contribution is expected to increase. The detailed estimated savings from a number of the new or revised strands and projects identified in the revised OTP are still being calculated, but this programme will remain a significant part of the strategy to address the financial gap both by reducing costs and generating additional income.

Workforce Development Strategy (WDS)

4.6 The Workforce Development Strategy has a direct connection with the MTFP as it contributes to the development of an effective and efficient workforce. This strategy has provided the framework for the delivery of workforce change that has taken place and will need to continue in light of the Council's financial position. The strategy is closely aligned with the organisational transformation programme, and will be fully refreshed in the autumn.

4.7 Key areas of progress include:

- Specific elements of workforce costs examined and anomalies removed.
- Effective redundancy and redeployment policy in place to support restructuring activity and the voluntary redundancy programme.
- Improvements to people management, information and processes, including appraisals and performance management to improve the effectiveness of the organisation, managers and staff.
- Robust policy review and development process in place and delivering policies, toolkits and training to further support performance management. (New in 2011/12 Discipline, Capability and Attendance Management with targeted work to reduce the cost of sickness absence. New in 2012/13 to date, Grievance and Dignity at Work (Tackling Bullying and Harassment)).
- Refreshed management development programme implemented.

4.8 Workforce savings targets were achieved with a reduction in the employee costs of £10.571m (compared with 2010/11, this also includes staff TUPE changes); with a council-wide Voluntary Redundancy programme delivering £0.463m of the total saving. Within those overall savings, the total senior management paybill (Assistant Directors and above) reduced by £0.470m between July 2010 and July 2012.

4.9 The table below shows a summary of the workforce costs and staff numbers over the last three years, with numbers of voluntary and compulsory redundancies.

Table 1: Workforce costs and numbers

	2010/11	***2011/12***	***2012/13 (budget)***
Employee Costs (£m)	£87.501m	£79.428m	£76.930m
Non Schools Staff numbers (FTEs)	2,536.10 (Feb 10)	2,413.88 (Mar 11)	2,177.07 (Jun 12)
Voluntary Redundancies	11	56	20
Compulsory Redundancies	27	38	12

4.10 Priorities for further work:

- To complete the Job Evaluation project and the development and implementation of a new pay structure.
- To continue to improve workforce planning at a service grouping level to support the organisation to deliver its medium term priorities.
- To develop and engage staff at all levels to strengthen the ability of each employee to contribute to performance improvement.
- To implement new tools (Manager and Employee Self Service – ESS/MSS) for managers and staff to further improve the efficiency and accuracy of workforce data and related management processes.
- To complete further structural analysis, supported by efficient ESS/MSS organisation charting capabilities, to monitor and manage staffing capacity and ensure resources are at the right level and in the right place.

Procurement Strategy

4.11 The Procurement Strategy is an essential element of the Council's approach to the achievement of value for money and cost reduction. Savings through improved procurement are a key part of the strategy to address the financial gap.

4.12 Key areas of progress include:

- The introduction of a Procurement Committee to make procurement decisions, including challenge and approval of both the specification of works and award of tender. This ensures value for money is achieved for the Council and consistent practices are applied across service groups.

- Progress on the review of Council suppliers to rationalise purchasing and identify opportunities for better corporate procurement, although this work is still ongoing.
- An initial forward plan of procurement decisions enabling contracts to be challenged for value for money and co-ordinated across the Council to maximise purchasing power and to minimise procurement costs. It is recognised this requires further work to ensure all contracts are captured. This forward plan also helps external organisations identify opportunities to tender for work.
- Implementing the use of framework contracts for social care to reduce the cost of individual packages of care.

4.13 Improved procurement has contributed to the delivery of £3.8m of cost reduction in 2011/12, including enabling better value for money to be achieved from capital resources. Estimated procurement savings in 2013/14 and future years are still being determined but the delivery of this strategy is expected to make a significant contribution to addressing the financial gap for the Council.

4.14 Priorities for further work:

- To work with Finance on e-enabling some of the Council's purchasing processes to reduce costs and streamline processes for both for the Council and its suppliers.
- To develop a corporate standard for ongoing contract management to ensure continuous improvement and value for money throughout the contract term.

Public Access

4.15 In December 2011 the Council approved the Public Access Strategy, with a two year implementation timetable to transform customer services. This strategy will improve our customers' experience by:

- Making it easier for them to get the services they need and maximising the number of enquiries (85%) that are resolved at first point of contact;
- Matching resources to need to improve outcomes;
- Re-designing the front and back office to reduce hand offs and rework; and
- Removing duplication, inefficiency and bureaucracy, resulting in cost reductions.

4.16 The implementation is being phased to focus on the areas which will give the most immediate benefit to customers. Phase one includes environment services and highways. Work is currently ongoing to develop the business case for the individual service changes required in phase one, including the identification of both financial and non financial benefits. The business cases are expected to be completed in August.

4.17 The strategic business case approved in December set out investment costs of £1.89m and potential savings of at least £3.7m over five years, although the actual savings from each phase of transformation will be identified through the development of the business case.

4.18 This programme will deliver a major change to the way the Council operates; improve customer experience and is expected to make a significant contribution to the Council's financial gap. Savings are forecast to be in arrears of the transformational change, but the investment and delivery in 2012/13 is expected to start to deliver net savings in 2013/14 and increasing levels of savings in future years. As the business cases are developed these will be incorporated into the MTFP.

ICT Strategy

4.19 The Council's ICT and e-Government Strategy is planned for a refresh in the autumn of 2012. This strategy underpins a number of transformational activities, which will deliver financial savings for the Council including office rationalisation (part of the Property Strategy) and the Public Access Strategy. There are also a number of projects within ICT which are intended to improve the Council's infrastructure and business tools, while reducing costs.

4.20 Key areas of progress include:

- Work underway on reviewing and rationalising systems to remove duplication. This has identified 3 business cases which will deliver non-cashable savings in 2012/13 and cashable savings in 2013/14 and future years.
- The two year rollout to the Virtual Desktop Environment is currently underway, which reduces computer purchase and maintenance costs and reduces energy consumption.
- The procurement of new network software as part of a consolidated data management package, which is expected to deliver significant savings.

4.21 These initiatives are forecast to deliver £0.539m of savings in 2012/13 as part of the Working Better Together savings. The priority for the ICT strategy is currently to enable improved business processes and support the organisational transformation programmes to enable these initiatives to improve efficiency and reduce costs for the Council.

4.22 Priorities for further work:

- The rollout of the Electronic Document Record Management System (EDRMS) which will reduce storage space (in line with the office accommodation strategy) and also ensure that the Council can identify and search documents to comply with legislative requirements.
- Consolidation and rationalisation of corporate systems to ensure appropriate systems are in place to enable a single point of access for the customer.

Property Strategy

4.23 The Corporate Property Strategy will continue to support the delivery of the Medium Term Financial Plan in the following ways:

- A review of office accommodation has taken place, which has identified opportunities to rationalise office accommodation. As a result 3 properties have already been vacated through expiry of leases, and 6 properties are now being sold or are being offered to lease, with staff moving to other buildings. These changes are anticipated to deliver £0.2m of savings in 2012/13 and £1.8m savings in future years.
- Phase two of the office accommodation rationalisation envisages increasing the density of staff in the two main corporate buildings, through the use of

hot-desking and flexible working arrangements. The workforce and ICT requirements to support this change currently being developed.

- Discussions are underway to develop a corporate property and facilities management function, which will become responsible for managing all Council property. This will both identify opportunities for efficiency through consistent ways of working and through the procurement of Council-wide contracts for facilities management. Savings from these measures are currently being developed.

5. The Global Economy and Inflation

5.1 An update on the UK's economic and fiscal outlook was published by the Office for Budget Responsibility (OBR) on the 21st March 2012, alongside the Budget 2012. The Budget 2012 identified public sector spending reductions until and including 2016/17, so throughout the period of this MTFP. This is largely due the Government's fiscal consolidation.

5.2 There are a number of national economic issues which will affect the costs the Council incurs, the funding it receives and contribute to the demand for services as residents are affected by the economic circumstances. The main issues including both the OBR forecasts (at March) and the average independent forecasts, collated by the Treasury in June are set out below.

Economic Growth

5.3 In March the OBR was forecasting that the economy would avoid a technical recession, (when the economy experiences two consecutive quarters of negative growth) and had given a growth forecast for 2012 of 0.8%, a 0.1% reduction on the position forecast in November. However, since the OBR report was published, the growth statistics have indicated that the economy actually declined in the first quarter of 2012, resulting in the economy technically being in a double- dip recession. The table below shows the OBR forecasts in November and March and the average independent forecasts, published in June.

Table 2: Forecast Gross Domestic Product (GDP)

	2011	**2012**	**2013**	**2014**	**2015**
November 2011(OBR)	0.9%	0.7%	2.1%	2.7%	3.0%
March 2012 (OBR)	0.8%	0.8%	2.0%	2.7%	3.0%
June 2012 (average independents)		0.3%	1.7%	NA[1]	NA

5.4 The average headline growth rate forecast in June 2012 is lower than the OBR rate for 2012. The projection then shows a slightly slower recovery than the OBR had anticipated.

Inflation

5.5 The rate of Consumer Prices Index (CPI) inflation in the UK matched its record high in September 2011, rising to 5.2%. It has since fallen, most notably when the increase in VAT fell out of the annual comparison, resulting in an average result of 4.5% for 2011. The largest upward pressure in the change came from increases in gas and electricity charges.

[1] Forecast data is not available beyond 2013

5.6 Inflation has been falling sharply during 2012 and it is forecast to remain at the Bank of England's target rate of 2% in the medium term as illustrated in Table 3.

Table 3: CPI Forecast

	2011	2012	2013	2014	2015
November 2011(OBR)	4.5%	2.7%	2.1%	2.0%	2.0%
March 2012 (OBR)	4.5%	2.8%	1.9%	1.9%	2.0%
June 2012 (average independents)		2.4%	2.0%	NA[2]	NA

5.7 The inflation rate impacts on the cost of services the Council purchases, as Milton Keynes delivers over half of its service provision through private sector providers, unless lower inflationary pressures can be negotiated inflation will cause costs to increase while funding continues to decrease.

5.8 However, these projections indicate that inflation will remain relatively low for the long-term, which although still a pressure for the Council, is less than earlier forecasts had suggested. If economic growth does increase as projected, these inflation rates may increase, which would make the Council's financial position considerably worse.

5.9 While the Government's measure of inflation is CPI, many of the Council's contracts are based on the Retail Price Index (RPI) which is projected to be at 2.7% for 2012 and 2013.

5.10 The Council has reviewed its planning assumptions in light of these forecasts and has included 2% general inflation for future years. Contractual inflation is included based on individual contracts as required.

5.11 The continued debt crisis in the euro zone is still a considerable risk to these projections. No long-term solution has yet been found and the financial markets are currently very volatile, meaning this position could change quite quickly.

Population and Unemployment

5.12 Between 1991 and 2009, the population of Milton Keynes increased by 33%, whereas the increase across England was only 8%. The projection for 2009 – 2018 is that Milton Keynes will grow by a further 15% to give a projected population of 272,740 by 2018.

5.13 Unemployment in the UK now stands at 2.65 million. This figure is forecast to peak at 2.9 million in 2013, with levels not expected to fall below 2.5 million before 2015 because of slow economic growth.

5.14 In Milton Keynes, unemployment (Claimant count) fell to 6,496 (4.0% of the working population) in May 2012 from 6,643 (4.1%) in April 2012, a decrease of 147 claimants. Comparatively, the Milton Keynes unemployment rate of 4.0% is just above the UK rate of 3.9%, although it is 1.3% higher than the South East rate of 2.6%.

5.15 The impact of unemployment among young people (under 24 years of age) remains an issue regionally and nationally. Young people made up 24.1% of the unemployed in MK in May 2012 compared to 27.0% in the South East

[2] Forecast data is not available beyond 2013

region and 28.7% in the UK. As a result of this, the Council will need to continue its investment in promoting and supporting these people (as set out in the Economic Development Strategy). The MTFP assumes one-off resources will be allocated as part of the budget pressures to address these challenges.

Public Sector Pay

5.16 The Chancellor has imposed a further restraint on public sector pay following the pay freeze in 2011/12 and 2012/13; setting an average increase of 1% for two years, to help pay for capital investments and support to help young people find work. While local government pay is not set by central Government, it is likely that the local government pay rate will follow this announcement. This pay restraint will be assumed by central Government and funding for local government will be reduced accordingly. This MTFP assumes a 1% increase in pay for 2013/14 and 2014/15 and a further 1% growth for increments. However, this will be reviewed in light of the pay and reward project.

MEDIUM TERM FINANCIAL POSITION

6. Overview

6.1 The General Fund Revenue Account records all of the expenditure and income relating to the day to day running costs of the Council. This account funds the majority of service provision, except for the services relating to tenants in the Council's houses. Expenditure for investment in assets is classed as capital expenditure.

FORECAST RESOURCES OVER MTFP PERIOD

7. Government Revenue Funding

7.1 The Budget 2012 announced in March, confirmed that Government financial support for local authorities would continue to decrease. At present detailed funding for individual authorities is not available, so the funding levels in this MTFP are based on the national spending totals for Government departments. These spending totals show significant decreases in the total level of funding that will be available for local government throughout the life of this MTFP and have been used to estimate the potential funding reductions for Milton Keynes Council.

7.2 The Local Government Resource Review (see paragraph 7.6) will impact on the way that this funding is received. Rather than receiving a fixed Formula Grant, Government funding will now be through a combination of retained business rates and a potential additional payment through Revenue Support Grant. These changes will mean that in year funding from Government will vary during the financial year.

7.3 In the Autumn Statement made by the Chancellor in November 2011, it was announced that funding levels for 2013/14 and 2014/15 would be reduced to reflect an assumption that Local Government pay awards will average 1% in each year. This means in setting the funding available for local government, it has been assumed that pay increases will be limited to 1%, even though the Government does not set pay increases for local government employees. Any decision to increase pay above 1% will result in a budget pressure.

7.4 This MTFP makes the following assumptions about total Government funding based on the national spending totals currently available.

Table 4: Forecast Government Funding

	2013/14	2014/15	2015/16	2016/17
Forecast Government Funding (£m)	77.175	69.193	62.412	58.168
Reduction (£m)	-4.436	-7.982	-6.781	-4.244
Percentage Reduction (%)	-5.4%	-10.3%	-9.8%	-6.8%

7.5 However, there are a number of factors which will influence the level of funding Milton Keynes actually receives compared to other authorities. These are as follows:

- Local Government Resource Review (see paragraphs 7.6 – 7.9)
- Academies Transfer Adjustment (see paragraphs 7.10-7.11)
- New Homes Bonus Grant (see paragraphs 7.12-7.13)
- Data changes affecting the baseline position

Local Government Resource Review

7.6 Government funding for local authorities is changing significantly in 2013/14, as a result of the Local Government Resource Review. This review will be conducted in two phases. Phase 1 considering how to localise business rates (see paragraphs 7.7-7.9) and implement the changes required as a result of the implementation of the localisation of Council Tax benefits (see paragraph 8.10-8.23). Phase 2 will consider the implementation of Community Budgets.

Localisation of Business Rates

7.7 The details of the proposals to localise business rates have currently to be confirmed. The principles of the scheme are available but there is insufficient detail to determine how this will impact on individual authorities.

7.8 The intention behind the introduction of the scheme is to provide an incentive to local authorities to promote economic growth in their area, by ensuring that at least a proportion of the increased business rates generated by this growth are retained at a local level. However, this also means that if business rates reduce in a year, local authorities are exposed to an income risk.

7.9 The principles of the scheme are as follows:

At a National Level

- The total business rates collected at a national level will be split into two elements; the central share and the local share. The central share will be kept by central Government; the local share (50% of the total) will be retained by local authorities, (subject to Tariffs, top-ups and levies to mitigate disproportionate growth).
- The Police service will be funded from the central share rather than through the localisation of business rates.
- The length of time between resets of the system will not be set in legislation but it is not intended to reset the system until 2020 at the earliest. This means growth will be measured against the current baseline until 2020.
- The 50% local share will be less than the Local Authority spending review totals in 2013/14 and 2014/15, so the difference (once the New Homes Bonus funding has been deducted) will be allocated through a Revenue

Support Grant (the basis will be set out in the Local Government Finance Report).

At Local Authority Level

- The Government will define and consult (over the summer) on the definition of Local Authority Business Rate income for the purposes of payment of the central share. This will include consideration of issues such as mandatory and discretionary rate relief, losses on collection, hardship relief and repayment of refunds for previous years. As the income from retained business rates is not guaranteed the result of this definition will influence the risk to local authority income in year.
- The local share will be retained by the Council, and will form its funding baseline. The baseline will increase linked to an index each year (probably based on RPI), so for any benefit from the funding system, any growth in business rates must exceed the increase in the index.
- Where the LA received more business rate income that the local share, they will be required to pay a tariff, where the LA receives less business rate income than the local share they will receive a top-up. Milton Keynes will be a Tariff authority as we collect considerably more in business rates than we are able to retain (note: the figures included below are for illustrative purposes only)

Chart 1: Model for Localisation of Business Rates

Total Business Rate Income (c£133m)	Tariff (paid to Gvmt as central share) c£53m
	Local Share (funding baseline) c£80m

- (This model excludes any allowance for funding through Revenue Support Grant, so our actual local share may be lower, with a proportion of our income being through Revenue Support Grant).
- There will be a safety net (funded from the tariffs paid by other authorities) this will be a guarantee that no authority will see its income fall below a set proportion of its baseline spending. It is likely the safety net will be set in the range of 7.5% to 10% below the spending baseline.
- For example, with the safety net set at 10%. If income is less than 90% of the baseline, a top up would be received so that a maximum of 10% of the baseline is lost. But if funding fell by 8%, no top-up would be received as the loss will not be significant enough. Based on the headline figures above, this could give potential losses of up to £8m in a year, with no funding through the safety net.
- Local Authorities will be allowed to retain their growth in business rates (above the index linked increase in the baseline), but a levy will be imposed to limit disproportionate growth. This will be a proportional levy (individual to each authority) so that for every 1% increase in business rates the authority

can retain a 1% increase in its baseline spending share. So in the example above, if business rates increased by £1.3m (1%) the Council could retain £0.8m (1% increase in the baseline).

Academies Transfer Adjustment

7.10 The Department for Education (DfE) consulted local authorities on a reduction to their Government funding allocation to reflect increasing numbers of schools becoming academies. The DfE view was that local authority costs would reduce as schools become academies and therefore the local government funding could be reduced.

7.11 The decision was made to freeze reductions in local government funding at a maximum of the level already deduced from funding allocations in 2012/13, with further announcements on future funding reductions. At present no further information has been provided. Although there has been some indications that a ring-fenced grant for central education services could be created. The conversion to academy status in Milton Keynes has been relatively high, which means the impact of any proposed funding reduction could be greater than the national spending totals. For this reason the funding forecast included in the MTFP incorporates an additional £1m estimated funding reduction to mitigate against this risk.

New Homes Bonus Grant

7.12 The Government have stated that any New Homes Bonus Grant (NHB) payments, in excess of their £950m allocation, will be top sliced from the business rates that would have been allocated to local authorities, to be redistributed through the NHB grant. This means that the deduction in funding will affect the total available for distribution to all authorities, with those authorities with high levels of house building then receiving the New Homes Bonus in return. The allocation of New Homes Bonus Grant to Milton Keynes Council is addressed in Table 9 of this Plan.

7.13 In addition to the changes to the main sources of Government funding, the Council is also affected by changes to Specific Grants. Further information on the estimated impact on specific grants is shown in paragraphs 9.2 to 9.4 of this report.

8. Council Tax

8.1 In February 2011 the Council accepted a Government proposal to freeze Council Tax for 2011/12. As a result of this the Council received a grant equivalent to a 2.5% increase (£2.3m). The terms of this grant are such that this amount will be paid for an additional 3 years i.e. 2012/13 – 2014/15.

8.2 In February 2012, the Council again agreed to freeze Council Tax in return for a one-off grant equivalent to a 2.5% increase. This grant is not available to support expenditure in 2013/14, adding to the funding gap. Any further decisions to maintain Council Tax at its current level , though one-off grant funding will increase the shortfall in future years.

8.3 Table 5 shows the Council Tax assumptions which have been included in the medium term financial plan. For future years planning purposes, the estimates for Council Tax increases have been reviewed to reflect the Council’s policy of having low levels of Council Tax increases. For future years, the Council will have to be mindful of the new Local Referendum powers as outlined in paragraphs 8.4 to 8.6.

Table 5: Planning Assumptions for Council Tax Increases

Year	Current projection
2013/14	**2.25%**
2014/15	**2.25%**
2015/16	**2.25%**
2016/17	**2.25%**

Council Tax Referendums

8.4 As part of the 2011 Localism Act, Council Tax Capping in England has been abolished and has been replaced by new powers for residents to approve or veto excessive tax increases through a local referendum. If the residents vote against the increase, the local authority will have to revert to a Council Tax level that is compliant with the Governments proposed increase.

8.5 Each year, the Government will give an indication of the level of increase they are minded to propose, with the final announcements being confirmed in the early part of the New Year. For 2012/13 a threshold of 3.5% for single tier authorities was set, no proposal has yet been made for 2013/14. Any increase above the set threshold will trigger a referendum under the new powers.

8.6 There were no equivalent limits proposed for Town and Parish Councils for 2012/13, although these may be introduced in future years.

Collection Rates

8.7 The calculation of the Council Tax base for a given year includes an assumption of the percentage of sums due which are actually collected. The collection performance by the Revenues and Benefits section of the Resources: Finance, Governance & HR Group is predicted to be maintained at 98.85%.

8.8 There is currently concern that the impact of welfare reform and the Council Tax Support changes (see paragraphs 8.10 to 8.23) will result in a reduced collection rate. While the design of the Local Council Tax Support Scheme will influence this risk, the national changes to welfare benefits are also likely to impact on household income. If household income falls, this may result in a reduced collection rate for Council Tax. The assumption in this MTFP is that collection rates in 2013/14 will fall by 0.25%, to 98.60%. This will be revisited in subsequent budget/ MTFP reports once the implications of welfare reform and Local Council Tax Reform become clearer.

Use of Collection Fund Surplus

8.9 The Collection Fund is monitored throughout the financial year. As at June, the Collection Fund was on track to deliver the budgeted return from Council Tax for the Council. If later in the year a surplus is forecast, this will be used in line with the agreed financial principles. As a “one-off” surplus this will be used to fund “one-off” expenditure. A prudent approach to committing any future forecast surpluses will also be taken.

Local Council Tax Support

8.10 Council Tax Benefit is a benefit for people on low income to help them to pay Council Tax. It is paid to individuals by local authorities. The Government currently gives local authorities a grant to match the payments made to individuals.

8.11 In the 2010 Comprehensive Spending Review, the Government announced proposals to reduce spending on Council Tax Benefit by 10%, saving £490m nationally and localising the responsibility for providing Council Tax support.

8.12 The changes in the funding and responsibilities for Local Council Tax Support (LCTS) mean that rather than giving a benefit to meet the costs of Council Tax, support will now be in the form of a discount against Council Tax owed. Local authorities can adopt a policy to determine who is eligible for the discount, if a local policy is not set a default national scheme will need to be followed.

8.13 The Government have determined that pensioners should not be impacted by the changes to Council Tax Benefit and vulnerable people should also be protected, although "vulnerable" has not been defined. Local authorities should be mindful of equalities impact legislation and ensure schemes provide incentives to work when developing their local policies for Council Tax Support.

8.14 The initial assessment following the announcement of the change, suggested a financial loss to the Council of £1.7m. However, the information published recently suggests that the national intention to reduce the benefits paid out, means the financial impact for Milton Keynes Council (and parishes) is potentially up to £2.6m in 2013/14, with the total impact on the Collection Fund being closer to £3m.

8.15 There are a number of factors which will mean the future loss in income is likely to be greater than £2.6m, unless the local policy implemented anticipates these issues. The main issues are as follows:

- Council Tax increases will no longer be funded, as was the case with benefits, so less income will be generated by an increase in Council Tax.
- The growth in houses in Milton Keynes is likely to lead to a greater need for discounts to be paid out; the modelling at present assumes a 2.5% increase per year.
- The Government grant to mitigate the changes proposed will be fixed at £12.133m, for at least two years. However, given the uncertainty of the position in 2015/16 and 2016/17 no further increase has been assumed.

8.16 The table below summarises the impact of the changes to the Tax Base and to the Milton Keynes Council's Council Tax income.

Table 6: Impact of Local Council Tax Support on Total Collection Fund

	2013/14	**2014/15**	**2015/16**	**2016/17**
Council Tax				
MKC (£ per band D)	1,141.39	1,167.07	1,193.33	1,220.18
Parish (£ per band D)	62.21	62.21	62.21	62.21
Police and fire (£ per band D)	213.43	213.43	213.43	213.43
Total (£ per band D)	**1,417.03**	**1,442.71**	**1,468.97**	**1,495.82**
Tax base before change	85,284	86,260	87,360	88,460
Estimated subsidy paid out (£m)	17.425	17.861	18.307	18.765
Tax base equivalent	12,297	12,380	12,463	12,545
Total Council Tax collected before change (£m)	(120.850)	(124.448)	(128.329)	(132.320)
Council Tax collected after change(£m)	(103.425)	(106.587)	(110.022)	(113.555)
Plus MK grant (£m)	(12.133)	(12.133)	(12.133)	(12.133)
Plus police and fire grants (£m)	(2.319)	(2.319)	(2.319)	(2.319)
Total income in new scheme (£m)	(117.877)	(121.040)	(124.474)	(128.007)
Total loss due to change (£m)	**(2.973)**	**(3.408)**	**(3.855)**	**(4.312)**

8.17 In mitigating the impact of the Local Council Tax Support Scheme, Government have issued grant allocation to the billing authority (Milton Keynes Council) and the major precepting bodies (Thames Valley Police Authority and Buckinghamshire Fire and Rescue Service). No additional grant allocation has been issued to Town and Parish Councils who also face an income reduction if the Tax Base reduces.

8.18 In the guidance published with the scheme, the billing authorities have simply been instructed to work with Town and Parish Councils, being mindful of the fact that the Secretary of State may impose referendum limits for excessive Council Tax increases. The table below shows the reduction for Milton Keynes Council and the Town and Parish Councils if the total grant was retained by Milton Keynes Council.

Table 7: Maximum Losses to Town and Parish Council's

	2013/14 (£m)	**2014/15 (£m)**	**2015/16 (£m)**	**2016/17 (£m)**
Total Council Tax collected before change (£m)	(97.342)	(100.671)	(104.249)	(107.937)
Council Tax collected after change (£m)	(83.306)	(86.223)	(89.377)	(92.630)
Plus MK grant (£m)	(12.133)	(12.133)	(12.133)	(12.133)
MK Council loss due to change (£m)	**(1.902)**	**(2.315)**	**(2.739)**	**(3.174)**
Max loss to Parish Councils (£m)	**(0.765)**	**(0.770)**	**(0.775)**	**(0.780)**

8.19 Milton Keynes Council is planning to consult on options for a local policy over the late summer/ early autumn. These options will include technical changes to Council Tax which will offset some of the projected loss, but the remaining impact on the Collection Fund, can only be offset by reducing the level of support previously given.

8.20 Once the likely impact of the local policy has been determined, the Council will need to work with Town and Parish Councils to share any residual impact.

8.21 At present this MTFP assumes that the combination of the technical reforms and the local policy will fully offset the income loss estimated in 2013/14. But the Council will need to fund the costs of the 2.5% increase in claimants (as the grant is frozen) and future years income raised through the Council Tax will be reduced. These assumptions will need to be reviewed and the Tax Base recalculated once the projected impact of the local policy becomes clearer.

8.22 One-off costs of £0.800m in 2013/14 and £0.500m in 2014/15 have been assumed to allow some transition for individuals between their current arrangements and the new local policy.

8.23 In addition to the impact of the LCTS on the Collection Fund, the Council is likely to face an additional financial pressure from a reduction in the administration grant to deliver Council Tax Benefit. The Department of Work and Pensions have announced that grants will be reduced, although the detail is not yet known, even though the cost of administrating a local scheme is likely to be as much or potentially more than the administration of the local scheme. This MTFP has included a £0.600m loss in income from the administration grant as a financial pressure.

Tax Base

8.24 The major changes to the Tax Base are as a result of the implementation of LCTS (see paragraphs 8.10 to 8.23).

8.25 The forecast growth in the Tax Base is based on housing growth assumptions and adjusted for a risk to potential delivery. The current estimated Tax Base growth is currently estimated at 1,000 band D properties a year. The estimated Tax Base and the changes for LCTS are currently estimated as follows:

Table 8: Estimated Tax Base

Band D equivalents	2013/14	2014/15	2015/16	2016/17
Council Tax Base - original	84,284	85,284	86,284	87,284
Council Tax Base Growth	1,000	1,000	1,000	1,000
Revised Council Tax Base	85,284	86,284	87,284	88,284
Impact of welfare reform on collection rates (0.25%)	(176)			
Impact of LSCT funding change	(12,297)	(12,380)	(12,463)	(12,545)
Impact of technical reforms	565	555	545	535
Impact of local policy	1,553	1,525	1,498	1,471
Forecast Tax Base	74,928	75,984	76,864	77,745

8.26 The estimated future growth is regularly reviewed to ensure it remains reasonable, and a prudent estimate is always used to ensure the Collection Fund remains balanced or in a surplus. The anticipated income arising from a projected increase in the Tax Base is shown in Table 10.

9. Other Resources

Income Generation

9.1 The Council is also considering business opportunities as part of the Organisational Transformation Programme which is focused on identifying, assessing, and where appropriate, developing opportunities to increase Council income from alternative sources. These include the following items which have or will be incorporated within the MTFP (as the position becomes clearer):

- Potential income from a Casino in Milton Keynes. The initial agreement of the Casino licence has generated £0.500m per year for the Council, in addition to the funding specifically earmarked to offset the direct impact of the casino on vulnerable individuals. The use of this funding is being considered as part of the budget development and will be used to sustain services, particularly those which impact on the communities in the area surrounding the casino.

- The residual waste treatment facility currently being developed may offer income generation possibilities, through selling spare capacity.

Specific Grants

9.2 The Council continues, to receive a number of specific grants. These grants are in some cases “ring fenced” to individual activities, so spending is dictated along with the funding. Some specific grants are not ring fenced which means that although the grant was previously related to a particular activity or service area, the Council can choose how funding is spent in accordance with local priorities.

9.3 The announcement in relation to the principles for the localisation of business rates have indicated that a number of specific grants may be included in the local share, which will be funded from retained business rates. However, this is not yet clear. At present the current level of specific grants have been reviewed, and funding reductions in line with the Government spending totals have been applied, unless more information is known.

9.4 Additional funding has been included in the Early Intervention Grant for 2012/13 in recognition of increased costs associated with providing early education for disadvantaged two year olds. An announcement has been made that this funding will transfer from the Early Intervention Grant to the Dedicated Schools Grant. Further details are expected in July.

Reserves and Balances

9.5 The Council must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. A risk assessment of the General Fund Balances informs the Corporate Director, Resources view of the adequacy of reserves to provide assurance to the budget. While the minimum prudent level of reserves continues to remain at £7m for 2012/13. However, an assessment of the deliverability of individual proposals and the risks identified on the budget risk register (which is being formally refreshed as part of the detailed budget process), identifies a need to maintain General Fund reserves at £1.5m above the minimum prudent level, to mitigate against the combination of risks identified.

9.6 In addition to the General Fund Balance, the Council keeps a number of earmarked reserves on the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans or potential liabilities.

9.7 The Council has continued to develop its prudent financial management arrangements over the last two years, through the development of earmarked reserves to mitigate against potential future risks. As issues arise the potential requirement for an earmarked reserve is considered. New earmarked reserves are formally considered as part of the detailed budget process, to ensure that risks identified are adequately mitigated.

9.8 The detailed budget process includes an assessment of the adequacy of General Fund Reserves and a review of earmarked reserves, to both create new earmarked reserves and release reserves which are no longer required, to become one-off funding for the Council.

9.9 The major new risks for the Council this year relate to the changes to funding through the localisation of business rates and the impact of the Local Council Tax Support Scheme. Both of these changes expose the Council to in-year fluctuations in income, which had previously been fairly guaranteed.

9.10 An earmarked reserve for the impact of the localisation of business rates was created last year as proposals were announced. This currently contains £0.748m. However, the recent announcements that the safety net will only operate to protect Councils after losses of 7.5% to 10% of their baseline funding, means the Council is exposed to significantly higher risk than previously expected. Modelling is currently being undertaken to review the volatility for business rate income in Milton Keynes. Once this work has been completed a revised level of reserve will be recommended.

9.11 The Local Council Tax Support scheme means that the Council will need to administer discounts to Council Tax at its own cost. This means if the demand for discounts increases the Council will collect less income in year than was previously expected. In order to protect against this future risk it is recommended that an earmarked reserve is set up of £0.500m. This is equivalent to a 2.5% growth in demand. This will either be created from in-year underspends, through a review of current reserves or through one-off funding available in the Budget process.

9.12 One of the key underpinning financial principles of the MTFP is to reduce the Council's dependency on Reserves (and other one-off funding) to balance the ongoing pressures in the budget. Earmarked reserves are now used to for specific purposes (usually one-off) to support the delivery of corporate objectives and to mitigate risks.

New Homes Bonus

9.13 The Government has established the New Homes Bonus which is allocated to Councils based on the building of new homes and bringing empty homes back into use. It is promoting New Homes Bonus as a way to ensure that the economic benefits of growth are returned to the local authorities and communities where growth takes place - and so help engender a more positive attitude to growth.

9.14 New Homes Bonus is potentially a resource to invest to support the implementation of key strategies, including the Core Strategy; Economic

Development Strategy; Local Investment Plan; Regeneration Strategy, and Housing Strategies. The allocation of the grant will be managed strategically in accordance with existing Council objectives through the policies agreed at Cabinet on the 26th July 2011.

9.15 The New Homes Bonus Grant allocation for 2012/13 has been announced as £4.4m. This includes the second year payment of the first instalment (£2.5m) and the first year payment of the second instalment (£1.9m). As previously described in paragraph 7.12, an amount of funding will be top sliced from the Formula Grant each year in order to meet the New Homes Bonus Grant allocations due to each local authority.

9.16 The New Homes Bonus will be held in an earmarked reserve until allocations are made. This will mean funding is available across financial years to support the strategic planning and the allocation of future resources. The table below summarises the current projected income and commitments against the New Homes Bonus.

Table 9: New Homes Bonus

	2011/12 £m	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Income						
2011/12	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)
2012/13		(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
2013/14 (forecast)			(1.9)	(1.9)	(1.9)	(1.9)
2014/15 (forecast)				(1.9)	(1.9)	(1.9)
2015/16 (forecast)					(1.9)	(1.9)
2016/17 (forecast)						(1.9)
Total forecast income	**(2.5)**	**(4.4)**	**(6.3)**	**(8.2)**	**(10.1)**	**(12.0)**
Commitments						
Broadband	0.8	0.8	0.8			
Vulnerable People	0.5					
HCA Assets		2.7	2.7	2.7	2.7	2.7
Total Commitments	**1.3**	**3.5**	**3.5**	**2.7**	**2.7**	**2.7**
Un-committed funding	**(1.2)**	**(0.9)**	**(2.8)**	**(5.5)**	**(7.4)**	**(9.3)**

Tax Increment Financing

9.17 The Government has also announced that as part of the Local Government Resource review it is considering allowing local authorities to borrow against future business rate income. This is known as tax increment financing. A change in legislation, as part of the Local Government Finance Bill, will be required to implement tax increment financing. When the details of the proposals are available, the Council will consider how this could benefit Milton Keynes.

10. Summary of Available Resources

10.1 The total resources forecast to be available over the medium term are shown in Table 10.

Table 10: Summary of Available Resources over MTFP Period

Funding	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Resources from previous years	(197.203)	(192.328)	(185.419)	(177.393)
Reductions in Government Funding	4.436	7.982	6.781	4.244
Change in Specific grants	1.127	2.149	2.045	1.419
Council Tax Freeze Grant	2.300	0	2.300	0
Local Support for Council Tax Grant	(12.133)	0	0	0
LSCT Reduction in Council Tax Collected on behalf of MKC and Town/ Parishes	14.800	0	0	0
LSCT Additional Council Tax by implementing LSCT Policy	(2.667)	0	0	0
Council Tax Increase [assumed 2.25%]	(1.872)	(2.081)	(1.933)	(1.974)
Growth in Council Tax Base	(1.116)	(1.141)	(1.167)	(1.220)
Total Resources Available*	**(192.328)**	**(185.419)**	**(177.393)**	**(174.924)**
Total funding (increase)/reduction in year	4.875	6.909	8.026	2.469

* Including Parish Precepts

10.2 The resources forecast in Table 10, do not take into account any changes in resources that might arise as highlighted in the "Other Resources" section 9 of this report.

GENERAL FUND EXPENDITURE

11. Corporate and Service Issues

11.1 This section sets out some of the emerging corporate and service pressures that will need to be addressed over the MTFP period. The detailed budget build process is currently underway, which may raise some additional issues. But the following pressures have been identified to date as a result of significant demographic, economic and legislative issues:

- A projected 40% increase in over 75 year olds over the next 5 years, resulting in a forecast 8% pressure in adult social care services.

- Energy costs which continue to rise well above current rates of inflation.

- The population of children and young people aged 0 – 19 years is anticipated to increase by 16% over the next 10 years at 1,000 a year. This increase in pupils and children in Milton Keynes will impact across all areas of Children's Services; from the number of school places that are required to the number of children placed in care.

- Additional demand for bed and breakfast provision, as a result of temporary migration, to meet homelessness duties.

- From April 2013 the Council must automatically enrol certain members of the workforce into the pension scheme (including staff aged between 22 and state pension age, and those earning above £7,475). As their employer the Council will need to make a contribution to their pension, which could lead to increases in the cost of the workforce. The likely impact of this change is currently being calculated.

11.2 Table 11 outlines the on-going pressures identified so far, which have been included in the indicative MTFP forecast in Table 15.

Table 11: Budget Pressures

Pressures Category	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Corporate Budget Pressures (inc. debt financing)	2.362	2.308	3.147	2.896
Demography	2.991	2.597	2.310	2.284
Legislative Change	0.948	0.449	0.373	0.120
General	1.817	0.316	0.010	0.010
Member Driven	0.555	0.146	0	0
Spend to Save	0.715	0	0.036	0
Grant Reduction	0.791	0.020	0	0
Total On-Going Pressures	**10.179**	**5.836**	**5.876**	**5.310**

11.3 It is likely that additional pressures will be identified as financial years progress, either as a result of changing population needs, unanticipated issues or legislative change. The pressures included in this detailed position are also still subject to challenge through the detailed budget process, so some of the items included, particularly in the early years of the forecast may reduce, while additional items are likely to be identified in future years.

Sustainability Items

11.4 The Council's budget principles require provision for future liabilities. There are three key issues which require future financial provision. In order to smooth the future impact of these known liabilities, these items are being built into the revenue budget on an incremental basis in advance of when costs will be incurred. This means funding will be available in the base budget position when required, but these items will be used on a one-off basis in the interim to fund one-off pressures. These items have been treated as follows:

11.5 **Pension Fund Contributions –** The Pension Fund is administered by Buckinghamshire County Council. On a national level, the Government entered into a programme of reform of all public sector pension schemes. Agreement has been reached between the Local Government Association and trade unions on the core parameters of a revised scheme which will be introduced in April 2014, with regulations being in place by April 2013.

11.6 The setting of regulations in March 2013 will enable the Actuary to undertake its next triennial valuation taking these into consideration. This revaluation will form the basis for updating pension costs for the three years commencing 2014/15. In recognition of a potential increase in the pension fund liability particularly as a result of investment market uncertainty, an increase of 1% of pay costs has been included in the base budget for all future years. Beyond that the contributions currently being consulted on should reduce employers' contributions. Again, when the position is clarified the MTFP position will be updated.

11.7 **Residual Waste Treatment Project –** The Council is developing a project to address residual waste treatment needs, which will be funded by prudential borrowing. Until such time that the final costs are confirmed, an increase of £0.5m will be included each year to 2014/15, with an additional increase of £0.880m in 2015/16 and 2016/17. This funding position ensures sufficient resources are in place to fund the baseline model.

11.8 The tendering process for this project will conclude in the next couple of months. Once the likely price is known these budget allocations will be reviewed.

11.9 **Revenue Contributions to Capital Outlay (RCCO) –** In order to address the long term repair and maintenance issues surrounding the Council's asset base, the base budget includes an additional amount of £1m each year until 2014/15 for a revenue contribution to capital. This funding is proposed to enable the Council to fund prudential borrowing to address its infrastructure replacement issues. Contributions of an additional £0.220m are included in 2015/16 and 2016/17, in line with the long-term strategy for infrastructure. The programme of works to use this funding is proposed elsewhere on this Cabinet agenda.

11.10 Providing for these future liabilities is sound financial management and ensures that we are anticipating our future funding demands and making sustainable provision in our budget planning forecasts. The major benefit is that the Council smoothes the introduction of these new liabilities into the base budget in advance of their occurrence, whilst allowing the resources to be either held on the balance sheet to further manage the impact of the change or to be used as a resource to fund one-off expenditure pressures.

11.11 The development of a 15 year view of capital investment needs (see Annex 1a), may identify a requirement to set aside additional resources for future investment. This will be confirmed once the review has progressed further.

Job Evaluation and Pay and Award Projects

11.12 Outlined in the Workforce Development Strategy, which was approved by Cabinet on 26th January 2010, were the proposed changes to Pay and Reward with the introduction of the Job Evaluation Project.

11.13 The project is part way through implementation with a likely completion date in April 2013. Although the expectation is that ultimately the impact of the Job Evaluation Project on the pay bill will be broadly neutral, there are likely to be some transitional costs. To ensure a prudent financial position is maintained, some one-off costs have been identified and included in the Budget for 2013/14 as the potential transitional costs of this change.

11.14 The Project Board continues to meet on a regular basis to ensure that the project is progressing in a satisfactory manner and to discuss and resolve any issues or problems that arise.

One-off Budget Pressures

11.15 In line with the agreed financial principles, the Council's one-off costs are separately identified when developing the detailed Budget and MTFP. One-off budget pressures are funded from one-off resources, to ensure that a sustainable financial position is maintained.

11.16 The Sustainability items (see paragraphs 11.4 to 11.11), being created to fund items in future years are available to be used to meet one-off pressures in the financial years before they are required. For future years, one-off resources will be from specific reserves if a review shows they are no longer required, underspends in the previous financial year or from surpluses on the Collection Fund. These are all items which cannot be forecast at this time.

11.17 The current forecast one-off position is as follows:

Table 12: One-off pressures and funding

One-off position (cash)	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
One-off pressures	2.651	0.964	0.112	0.047
One-off savings	(712)	0.035	0.020	0.200
Total one-off pressures	**1.969**	**0.999**	**0.132**	**0.247**

One-off resources	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Sustainability items				
Waste	(1.000)	(1.000)		
Pensions	(1.414)			
RCCO	(3.000)			
Total one off resources	**(5.414)**	**(1.000)**		
Net one-off resources	**(3.445)**	**(1.000)**	**0.132**	**0.247**

12. Budget Savings

12.1 The reduction in Government funding and the increasing pressures for the Council mean that proposals need to be identified to either reduce costs or to increase income. Managers throughout the Council are continuing to work to identify detailed options for savings in accordance with the approach outlined in paragraph 2.3. As these options develop the medium term position will be revised.

12.2 The detailed budget process is currently partially completed. The budget challenge processes for each service have yet to take place. This process is likely to identify further opportunities for savings. In addition, there are a number of major projects which will deliver savings, but these have yet to be included in the financial position, as the level and timing of savings are currently uncertain.

12.3 Table 13 outlines the savings identified so far, which have been included in the indicative MTFP forecast (as shown in Table 15).

Table 13: Budget Savings

Savings Category	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Commissioning and Efficiency	(2.565)	(0.108)	(0.006)	0
Charges to Service Users	(0.631)	(0.338)	0.100	0
Service Re-design	(2.440)	(1.083)	(0.642)	0
Alternative Funding	(0.200)	0	0	0
Service Reduction	(0.671)	(0.216)	0.125	0
Total Savings	**(6.507)**	**(1.745)**	**(0.423)**	**0**

12.4 The impact on the full time equivalent numbers across the Council has yet to be confirmed, since a number of the savings proposals are still being scoped and evaluated. Any proposals which result in potential changes for employees, will be subject to consultation with employees and trade unions.

13. Indicative Budget Forecasts 2013/14 to 2016/17

Budget Planning Assumptions

13.1 The Council's financial planning assumptions have also been revised since the November report and are shown in Table 14:

Table 14: Revised Budget Assumptions

	2013/14	2014/15	2015/16	2016/17
General Inflation	0%	2.00%	2.00%	2.00%
General Pay Inflation	1.00%	1.00%	2.50%	2.50%
Increment Costs	1.00%	1.00%	1.00%	1.00%
Council Tax Base Increase	(1,000)	(1,000)	(1,000)	(1,000)
Fees and Charges	2.80%	2.00%	2.00%	2.00%

13.2 The general inflation assumption for 2013/14 has been reduced from 2.8% to nil, on the assumption that any increasing costs will be contained within existing budgets and/or through more efficient spending. Future years inflation is based on the Government projections of CPI inflation. This will be kept under review to ensure planning assumptions remain adequate.

13.3 The pay inflation for 2013/14 and 2014/15 reflects the announcement for a public sector pay freeze for two years.

13.4 Contracts have been inflated based on the specified inflation indices within each individual contract. Additional negotiation has taken place with contractors to determine how these cost increases can be reduced. This negotiation and retendering of contracts is part of the Council's strategy for cost reduction and will continue over the medium term.

13.5 Contractual negotiation with care providers is a particular financial risk for the Council. The Council has to be mindful of the costs incurred by providers and the potential sustainability of provision when negotiating inflationary increases.

13.6 For medium term planning purposes, the assumptions regarding the level of growth in the Tax Base has been based on MKC Observatory figures, moderated for known changes in developments and the risk of further recession and delays to growth.

13.7 The planning assumptions are that Fees and Charges will increase in line with general inflation assumptions. The 2013/14 fees and charges increase is based on the inflationary pressures being experienced by the Council, originally estimated at 3%. However, the Council will continue to identify opportunities to maximise income from this area to help sustain the overall budget position.

13.8 Table 15 outlines the indicative MTFP Forecast 2013/14 to 2016/17 resulting from the issues highlighted in this report.

Table 15: Indicative MTFP Forecast

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Total Resources Available (Table 10)	**(192.328)**	**(185.419)**	**(177.393)**	**(174.924)**
Estimated Expenditure brought forward from previous years	197.167	205.797	200.193	195.644
Less savings from previous year	0	(13.469)	(14.774)	(18.251)
Revised Expenditure	**197.167**	**192.328**	**185.419**	**177.393**
Pay Inflation	1.406	1.431	2.547	2.636
Contractual Inflation	2.572	2.585	2.405	1.673
Goods & Services Inflation	(0.217)	0.002	0.211	0.301
Income Changes	1.197	(0.244)	(0.391)	(0.151)
Total Inflation and Income	*4.958*	*3.774*	*4.772*	*4.459*
Corporate Budget Pressures	2.362	2.308	3.147	2.896
Demography	2.991	2.597	2.310	2.284
Legislative Change	0.948	0.449	0.373	0.120
General	1.817	0.316	0.010	0.010
Member Driven	0.555	0.146	0	0
Spend to Save	0.715	0	0.036	0
Grant Reduction	0.791	0.020	0	0
One-off pressures	1.969	0.999	0.132	0.247
Total Pressures	*12.148*	*6.835*	*6.008*	*5.557*
Total Budget Increases	***17.106***	***10.609***	***10.780***	***10.016***
Commissioning and Efficiency	(2.565)	(0.108)	(0.006)	0
Charges to Service Users	(0.631)	(0.338)	0.100	0
Service Re-design	(2.440)	(1.083)	(0.642)	0
Alternative Funding	(0.200)	0	0	0
Service Reduction	(0.671)	(0.216)	0.125	0
Less one-off funding for one-off pressures	(1.969)	(0.999)	(0.132)	(0.247)
Total Budget Reductions	***(8.466)***	***(2.744)***	***(0.555)***	***(0.247)***
Total Estimated Expenditure	**205.797**	**200.193**	**195.644**	**187.162**
Annual Funding Gap	13.469	14.774	18.251	12.238
Cumulative Funding Gap	13.469	28.243	46.494	58.732

13.9 In general this medium term financial projection reflects a decrease in Government funding (offset in part by additional Council Tax), together with unavoidable increases in expenditure as a result of inflation and demographic pressures. This combination is generating medium- term financial challenges for the Council.

13.10 It should be noted that future year's pressures and savings outlined in this summary position have not yet been validated and will be updated as the future year's detailed budget planning progresses.

ADDRESSING THE FUNDING GAP

14. Proposed Strategy to Bridge the Funding Gap

14.1 Table 15 shows that the Council has a forecast budget shortfall for the next four years as follows:

2013/14	£13.469m
2014/15	£14.774m
2015/16	£18.251m
2016/17	£12.238m

14.2 The detailed budget savings process is currently ongoing, so the first stage in addressing the funding gap will be to challenge all budget pressures highlighted in the current position. This is likely to result in a reduction in pressures, with some issues being assessed as being one-off while services are adapted, while others can be managed with the risks being noted accordingly. This process is also likely to identify additional pressures in future years, increasing the medium term gap.

14.3 The Council has identified £22.1m of savings in 2011/12 and £14.1m of savings in 2012/13, so new savings will become increasingly difficult to identify and deliver. For this reason it is essential the Council is aware of and implementing strategies to reduce costs across the medium term. This allows the planning and implementation time to ensure that savings are sustainable and deliverable and that the changes to services required are well managed.

14.4 While proposals are being developed to begin to address the full medium term position, the focus in to achieve a two year balanced budget proposal, with some process in the two future years. This will ensure services have an adequate planning horizon and allow the potential benefits from the Localisation of Business Rates to become clearer.

14.5 The Council is a complex and diverse organisation, so while a core strategy for delivering the overall budget position has been identified, this will mean different approaches and outcomes for different services.

14.6 The approach being taken to develop proposals which will meet the budget gap, is as follows:

- The new procurement processes are enabling a focus on large contracts to identify opportunities for cost reduction or re-scoping of services and ensuring a competitive process is followed to obtain the best price. These processes also ensure competition through a streamlined process at lower levels.
- All services are being asked to identify opportunities for efficiency, whether through more e-enabled services, better internal processes or reviewing the activities currently being undertaken to ensure that all resources are being used as effectively as possible. All new appointments are subject to challenge to ensure the post is required.
- As a major contract in the Council's cost base, the relationship with Mouchel continues to be improved, to increase efficiency and drive shared savings. This includes considering the most appropriate boundaries and roles between the Council and Mouchel staff.

- Income generation is a significant opportunity for the Council. Statutory charging services are ensuring that charges are appropriate and cover costs, while discretionary services are considering their charging compared to the market rate. This includes considering whether it is cost effective or necessary for the Council to continue to run these services.
- There are a number of areas of the Council that will undergo major transformation or progress new and innovative approaches as part of the Organisational Transformation Programme (OTP), some of these workstreams are still identifying the potential to reduce costs as a result of this activity. As progress is made these schemes are expected to make a significant impact to cost reduction.
- Some services could be delivered more efficiently by others, whether Parish or Town Councils, voluntary organisations or private sector providers. As part of the OTP a programme was begun to enable community asset transfer. The success of this approach will inform future transfers to ensure the most appropriate organisations run services.
- Finally all services are being asked to identify areas where services could be changed, or reduced in line with the Council priorities, as set out in the Corporate Plan. The scale and duration of the funding reductions are unprecedented; services cannot simply be stretched to meet the funding reductions over the medium term. The potential choices and the impact of these choices will be identified to inform member decision making.

14.7 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.

14.8 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) 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.

CAPITAL PROGRAMME 2013/14 TO 2016/17

15. Financial Principles

15.1 The Cabinet has previously agreed a number of underlying key principles upon which the Capital Programme would be developed in the future. These are summarised below:

- Emerging pressures are managed within existing cash limits - new capital schemes are not added in year, unless there is an explicit decision to re-prioritise the capital programme removing schemes if necessary. All schemes in the Capital Programme must be fully funded.
- Spending is aligned to Key Priorities - capital schemes will be prioritised based on information arising from Asset Management Plan work.
- Income is only included in budget where supported by robust proposals and is deliverable - capital schemes relying on funding from external parties will

only be given spend approval when funding is in place. Capital receipts will only be allocated once received.

- Future Liabilities are anticipated - The need to maintain the Council's assets is recognised and given priority within the capital programme. The Council is developing a long-term investment strategy to outline how future asset needs can be funded. This will ensure the financial impact of known future liabilities are adequately managed.
- Budgets are sustainable - Council budgets recognise that sales of assets alone are not a sustainable method of funding the capital programme over the medium term. The Council therefore needs to build into its budget revenue contributions to capital outlay and also take the opportunity to secure one-off sources to build up asset replacement reserves.
- Base Budget / One-off expenditure/ Capital expenditure are distinguished.
- Capital schemes: Allocation of resources is separate from expenditure approval.
- Capital and revenue planning needs to be integrated to ensure implications are fully anticipated.
- The use of specific grant funding does not lead to revenue budget pressures - where grant funding is made available to schemes there needs to be an explicit assessment of risk. In particular, on complex schemes where grant funding is fixed, the Council needs to recognise it would have to wholly fund any overspend.
- Reduce our dependency on Reserves to balance the Budget - funding from slippage creates significant risks around the capital programme, particularly where resources are constrained and future programmes are likely to diminish. For this reason slippage will not be used to fund schemes. A more prudent approach of funding schemes only when the specific resources allocated to the schemes have been identified and secured.

16. Overall Capital Strategy

16.1 The Council is developing its long-term asset management strategy, which will allocate resources based on the priorities set out in the Corporate Plan (which includes the need to maintain current assets), and take into consideration the infrastructure investment needs to drive growth identified in the Local Investment Plan (LIP)

16.2 In May the Council published its first high level strategic LIP for consultation. This document set out the infrastructure investment required in Milton Keynes to continue to promote growth and address its impact. The detailed schemes required over the long-term to address growth, will continue to be developed alongside the Council's long-term asset management programme. A draft detailed LIP will be published in November alongside the Council's Capital Programme and long term asset management programme, with a final version being published in February alongside the Budget, Capital Programme and MTFP.

16.3 Over the last three years the Council has improved its framework for the planning and management of its capital programme and long term investment needs. This enabled a 15 year plan of future investment requirements to be published for the first time in February 2012.

16.4 In 2010/11 the council identified the future liabilities created by the ageing infrastructure in Milton Keynes and began to develop provision for the replacement and repair of this infrastructure, identifying £4m of revenue funding to meet prudential borrowing costs by 2014/15. A programme of works to address the infrastructure requirements in highways and transport, using this funding is elsewhere on the Cabinet agenda. This is a major step forward in ensuring future liabilities are being planned for and addressed. Work is currently ongoing to extend this approach to the remainder of the Council's General Fund assets and to the Housing Revenue Account.

16.5 The Council will continue to develop its strategic approach to capital planning alongside and based on detailed Asset Management Plans (AMPs) to ensure that the strategic investment needs of the Council, together with the ongoing maintenance demands of the assets are being addressed. This approach to capital planning will require resources to be used flexibly across service groups, this may mean varying the previous assumptions of a 10% top slice from schools and transport funding to fund projects elsewhere in the Council. Decisions on the future prioritization of resources will be made in the context of a clear plan of investment needs, alongside the ongoing maintenance of the assets. This may result in allocations which are different from the Government Department guidelines for spending. This detailed planning work is currently ongoing.

16.6 The Council agrees a four-year rolling capital programme each February. The items included in the programme must provide value for money by delivering outputs that best match the Council's priorities set out in the Corporate Plan and meeting statutory requirements such as the provision of school places and health and safety regulations.

16.7 The revenue implications of capital projects are identified through the project appraisal process, and fed into the Council's revenue assumptions in the Medium Term Financial Plan to ensure that all revenue implications are taken into account.

16.8 Value for money is sought through:

- Efficient procurement of facilities through competitive processes and partnership working. These are well-established at Milton Keynes, and are addressed in the Procurement Strategy.
- Scrutiny of the project business case to ensure that outcomes from the scheme contribute directly to the Council's aims.
- Pre-project planning with identification of defined and measurable benefits, along with a post-project benefits review.

16.9 The improved management process for capital projects ensures that managers define the outputs and benefits from their schemes as part of the development of the project. There is careful scrutiny of possible projects at the appraisal stage, and they are prioritised according to the extent to which the outcomes they promise to deliver match the priorities of the Council.

16.10 Where funding in a particular year is not sufficient to meet the needs of all the bids, schemes are prioritised, with some schemes needing to be postponed until funding is available, and other non-essential schemes being excluded from the programme.

17. Capital Resources

17.1 Due to the size and scale of capital investment requirements, the majority of funding for the capital programme comes from Government support. This is either through the provision of capital grants or historically through borrowing approvals. A reduction in Government funding therefore impacts on the level of capital expenditure Milton Keynes Council can afford.

17.2 The following sources of capital finance are available:

- Single capital pot - a single allocation, together with specific individual Government Department guidelines as to how it should be allocated.
- Unsupported/ Prudential Borrowing – powers under the Prudential Code allow local authorities to borrow money to finance capital projects so long as the impact on revenue budget is affordable. The revenue impacts of prudential borrowing must be built into the revenue budget each year. Overall borrowing decisions are made at a strategic level in accordance with the Prudential Code under the Council's Treasury Management Strategy. The option of issuing a bond as an alternative way of financing is also being explored, but this would still be prudential borrowing.
- Growth-related grant and developer contributions – used to support expansion of the borough either as a result of specific grants or through the use of s106 agreements with developers. The purpose of s106 agreements is to provide for infrastructure needs made necessary by new development. In Milton Keynes this also includes funds allocated from the Tariff currently administered by the Homes and Communities Agency. The Tariff arrangements may be superseded by the new Community Infrastructure Levy in some areas. The implementation of the Community Infrastructure Levy will also result in changes to the S106 funding regime.
- Capital Receipts - resources generated by the sale of land or assets. Milton Keynes Council policy is that General Fund capital receipts are not allocated or committed prior to receipt unless inextricably linked to a specific project.
- Government Grants - these resources often come with a high degree of ring-fencing or specified purpose requirements attached to the funding, although some are not ring-fenced.
- Third Party Contributions - other funds provided by third parties, normally to supplement Council contributions from its other resources.
- Revenue Contributions - direct financing of capital expenditure from revenue resources.

Changes to Capital Resources

17.3 The changes to the Housing Finance Regime from April 2012 (as set out in section 20 of this report) give the Council greater flexibility in its future housing funding. A review of stock condition is currently being carried out to inform the future housing investment needs and further development of a long term Housing Business Plan, which will include consideration of housing regeneration needs. The detailed housing budget identifies resources available for future maintenance and investment, as a revenue contribution. The use of this funding will be based on the asset management plan and the stock condition survey, currently being undertaken.

17.4 The Department for Education has asked Sebastian James to undertake a review of education capital funding. The recommendations from this review have been published. The main messages were as follows:

- There should be a clear and agreed goal for capital expenditure in England; to create enough fit for purpose school places to meet the needs of every child.
- New buildings should be based on clear, standardised drawings and should be delivered by a single, strong, expert intelligent client. This means the Department for Education may deliver not money but a building to meet local needs.
- Responsible bodies should be accountable for the maintenance of the facilities they own and manage.

17.5 It is not clear how the Government will change capital funding for education, but these recommendations would create considerable changes to both responsibilities and funding for local authorities**.** DfE recently announced it would be commissioning a central school condition survey on all schools in England to assess their asset management needs. This would indicate that school capital funding may be more centrally driven and linked to an assessment of need; however no further detail is currently available. The Department for Education has so far only announced funding for 2012/13.

Forecast Capital Resources

17.6 The general economic circumstances discussed earlier affect expected capital resources in two ways. Constraints on government spending have resulted in significant reductions in Government funding. In addition, the economic slowdown has reduced the rate of growth in the borough's population. This reduces the level of developer contributions.

17.7 The following assumptions have been used to assess the resources available for the Medium Term Capital Programme:

- Estimates for Children and Families and Adult Social care based on 2012/13 allocations have been used for the medium term.
- Transport funding is based on the confirmed allocations for 2013/14 and 2014/15.
- Housing resources for future years have been assumed as £16.5m for 2013/14, £17.4m for 2015/16 and £18.350m in 2016/17 based on the revenue contributions in the current HRA Business Plan. The detailed use of this funding is being considered based on asset management needs. This will determine the level of ongoing improvement works to individual properties compared to major renovation, refurbishment or replacement works. These future allocations are dependent on the rent increase, debt financing and other costs for each year.
- Capital Receipts are based on the latest forecast from Property Services and are currently applied to the Strategic Allocation Pot. These receipts are based on a prudent forecast, but do not include any estimate of the receipts potentially possible from future assets being purchased from the Homes and Communities Agency. The first call on capital receipts from the HCA assets will be the repayment of prudential borrowing costs.
- Tariff and developer contributions have been applied to specific projects.

- Prudential borrowing is assumed to fund the Residual Waste Treatment Plant and the Highways Infrastructure investment, and will be funded through the budget increases included in the Sustainability items.
- Housing Right to Buy Receipts – the Council has recently signed up to a DCLG scheme which will allow the previously pooled share of Right to Buy receipts to be retained by the Council, to make a 30% contribution to the costs of delivering new housing schemes. If resources are not spent in a three year time period the receipts will need to be returned along with interest of 4% above the base rate. If the HRA has insufficient resources to fund the cost of delivering additional Council housing, funding can be allocated to registered housing providers.
- The use of these receipts will need to be carefully managed to ensure they can support Council house building wherever possible, and to ensure penalties are not incurred.
- The purchase of Homes and Community Agency Assets (still to be confirmed) is assumed to be financed through prudential borrowing. The funding for this arrangement is through a contribution of New Homes Bonus and future capital receipts.

17.8 These assumptions generate the following resources for the medium term:

Table 16: Forecast Capital Resources

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**Total £m**
Capital Receipts	1.220	0.220	0.220	0.220	1.880
SCE (R)	0.316	0.220	0.220	0.220	0.976
Single Capital Pot	44.453	19.256	19.257	19.257	102.223
Other Grants	3.820	1.332	0.372	0.372	5.896
Prudential Borrowing	0.577	14.006	9.006	133.956	157.545
RCCO	16.524	15.424	18.350	18.350	68.648
Developer Contributions	4.071	6.227	0.188	0.435	10.921
Tariff	7.742	6.660	8.504	22.432	45.338
Third Party Contributions	0.134	0.160	0.100	0.000	0.394
Total Capital Resources	**78.857**	**63.505**	**56.217**	**195.242**	**393.821**

17.9 Both in total and at the individual resource level these are at best prudent estimates of future resources, but may be subject to change. As any changes are identified, these will be reflected in future Medium Term Financial Plans.

17.10 Work is ongoing to incorporate S106 funding and projects into the capital programme to ensure that all the available funding is allocated and its use is transparently identified.

18. Capital Expenditure

18.1 The detailed process to refresh the Medium Term Capital Programme is currently ongoing, so the forecast expenditure requirements in Table 16 reflect the Medium Term Capital Programme published in February, with some adjustments.

18.2 The detailed position will be updated and challenged before the draft Medium Term Capital Programme is published in November. Similarly the long-term investment plan (Annex 1a) has been updated for major changes to the Highways and Transport Infrastructure programme, and a few other changes where schemes will be funded by developers, but this programme will be fully refreshed and reviewed alongside funding for publication in November.

18.3 Table 17 gives an overview of the indicative capital expenditure programme.

Table 17: Forecast Milton Keynes Council Capital Expenditure

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Children and Families	25.111	31.897	20.119	28.875	106.002
Highways and Transportation	11.341	15.880	15.605	17.550	60.376
Housing - HRA	16.524	15.424	18.350	18.350	68.648
Housing : General Fund	0.269	0.269	0.269	0.599	1.406
Adult Social Care	0.472	0.472	0.472	0.472	1.888
Neighbourhood Services	1.011	0.803	0.200	132.450	134.464
Resources	0.706	0.000	0.000	0.300	1.006
Planning, Economy and Development	1.524	1.016	0.000	0.000	2.540
Community Facilities Unit	2.860	2.400	0.000	7.885	13.145
Total Capital Expenditure	**59.818**	**68.161**	**55.015**	**206.481**	**389.475**

Summary Capital Programme

18.4 Table 18 shows a summary of the capital funding position over the MTFP period and the resources allocated in the Capital Programme.

Table 18: Indicative Capital Expenditure over MTFP Period

	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	389.475
Net position	**(19.039)**	**4.656**	**(1.202)**	**11.239**	**(4.346)**
Cumulative position	**(19.039)**	**(14.383)**	**(15.585)**	**(4.346)**	

18.5 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.

18.6 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.

18.7 The current Housing HRA programme is known to need additional investment in the medium term in order to address major asset management needs. However, an alternative funding solution will need to be identified as the HRA is unable to borrow above the debt cap.

19. Tariff and Assets Purchased From the HCA

19.1 The Council is currently negotiating with the Homes and Communities Agency (HCA) and the Department for Communities and Local Government (DCLG) to purchase £32.0m of assets and to take on the management of the Tariff and the associated risks.

19.2 The Tariff is a £311m forward funding model for infrastructure (both local and strategic) in Milton Keynes. The investment in infrastructure is recovered from future developer contributions. The scale of capital investment and the duration of the model mean that there are a number of risks surrounding the operation of the Tariff.

19.3 This MTFP update does not include the detailed financial implications of this negotiation as formal Treasury approval has yet to be granted. These details will be incorporated into future Medium Term Financial Plans and the Council's planning and management arrangements as they develop.

HOUSING REVENUE ACCOUNT

20. Overview

20.1 From 1st 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).

20.2 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.

20.3 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.

20.4 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. The financial projection for the Housing Revenue Account currently earmarks resources available as revenue contributions to the Capital Programme. The detailed use of these receipts whether for replacement and refurbishment of assets in general or for major works, whether regeneration or renovation is still being developed. This level of resource assumes that the debt level remains at the current level. This resource will be allocated to individual schemes once the detail of individual schemes is confirmed.

20.5 The HRA must plan and maintain service delivery and other priorities within the resources available.

20.6 The key financial issues for the HRA are:

Income:

- Future rent increases
- Other income assumptions
- Summary of total income available

Expenditure:

- Key expenditure assumptions
- Asset Management needs
- Debt financing
- Total expenditure profile

Balances and Reserves for the HRA

Summary position for the HRA

21. HRA Forecast Resources

Future Rent Increases

21.1 Under self financing, Target Rents will no longer be published by the Government, with determination of rent a decision of the Council. However, the debt settlement figure assumes that rent is set in line with the Rent Restructuring guidance and that convergence takes place by March 2016. This guidance assumed that rents would be increased at a rate of RPI plus 0.5%.

21.2 This is an important assumption under self financing, as rent and other income are the only long-term income resources for the HRA. Any reduction in rent levels below that assumed under Rent Restructuring will reduce the capacity for the HRA to fund investment in housing stock.

21.3 A draft Income Policy for the HRA is currently being developed and will be subject to consultation. The proposed rent levels set out in this MTFP may change as a result of this policy.

21.4 The national welfare reform changes are currently a risk to some of the income in the HRA. Under the current arrangements the rent for those people in receipt of Housing Benefit was paid directly to the Council, under the Government proposals for welfare reform this income will be paid directly to the resident, to then make payment of rent. This means income which was previously guaranteed to the HRA may now not be collected. In addition the general reduction in benefits through welfare reform, will reduce the income available to some tenants, which may increase the risk of non payment.

21.5 The HRA currently budgets to collect 93% of all rental income, although the collection of dwelling rents is higher at 97.2%. Due to the increased risks in relation to income collection, the budgeted level of collection for all rental income in 2013/14 has been reduced from 93% to 92%.

21.6 The financial plan currently assumes the following levels for rent based on the government's rent restructuring guidance which requires rents to move towards Target rent:

Table 19: Proposed Rent Levels 2013/14 – 2016/17

Year	Average Increase for Tenanted Stock %	Average Weekly Rent (Tenants) £	Increase in Average Weekly Rent £	Rent Increase for Shared Owners %
2013/14	4.90%	£85.43	£3.99	4.00%
2014/15	4.82%	£89.54	£4.11	4.90%
2015/16	4.81%	£93.85	£4.31	4.82%
2016/17	3.40%	£97.04	£3.19	4.81%

21.7 After 2016/17 rent is assumed to increase in line with forecast RPI (currently assumed to be 3%) plus 0.5%, which is consistent with rent restructuring guidance.

Other Income Assumptions

21.8 In line with general Medium Term Financial Planning assumptions income has been assumed to increase as follows:

Table 20: Key Income Assumptions

	2013/14	2014/15	2015/16	2016/17
Fees and Charges	2.8%	2.00%	2.00%	2.00%

21.9 The discounts available under the Right to Buy scheme have recently been increased. While this has resulted in an increased level of enquiries, the rate of Right to Buy sales has not increased. However, this will need to be kept under review.

21.10 Income levels assume a loss of rent due to Right to Buy sales estimated at 36 per year and in year void levels of around 0.65% to reflect current performance.

22. Key Expenditure Assumptions

22.1 The Council's financial planning assumptions have also been used to produce the financial plan. The key expenditure assumptions are as follows:

Table 21: Key Expenditure Assumptions

	2013/14	**2014/15**	**2015/16**	**2016/17**
General Inflation	0%	2.00%	2.00%	2.00%
General Pay Inflation	1.00%	1.00%	2.50%	2.50%
Increment Costs	1.00%	1.00%	1.00%	1.00%
Fees and Charges	2.80%	2.00%	2.00%	2.00%

22.2 The general inflation assumption for 2013/14 has been reduced from 2.8% to nil, on the assumption that any increasing costs will be contained within existing budgets and/or through more efficient spending. Future year's inflation is based on the Government projections of CPI inflation. This will be kept under review to ensure planning assumptions remain adequate.

22.3 The other main assumptions affecting expenditure within the budget are as follows:

- Repairs and Maintenance – No inflation has been included in relation to the major repairs and maintenance contract as an efficiency has been negotiated with the contractor for 2012/13 and 2013/14. This will save £0.070m in 2013/14.

- An increase of £0.100m in the provision for bad debts on rental income is assumed due to the increased risks in relation to rental income collection.
- Debt Financing Costs – costs of additional funding taken under self financing plus the cost of existing HRA borrowing. The Council's decision to incorporate HRA debt with the total Council debt means that this rate may change in the future (see section 24 on debt financing); this presents a risk to the HRA. As a result it is recommended that an earmarked reserve is developed to ensure that changes in the debt cost can be financed in future years.
- Depreciation and Capital Investment – under the Subsidy system the Council put £8m into a Major Repairs Reserve to be spent on major capital works. Under self financing the Major Repairs Reserve has been replaced by a local assessment of capital spending needs. This will be the value of depreciation the Council will in future need to set aside.

  Depreciation will be calculated under new CIPFA guidelines which have yet to be released. The new approach will require the major components of the stock (i.e. kitchens, bathrooms, roofs etc) to be valued and depreciated based on their useful life. This is a prudent approach as it ensures sufficient resources will be available for the replacement of the relevant components. However, it means that the cost of depreciation is likely to increase compared to the 2012/13 forecast which simply considers depreciation based on total asset value and asset life.

  Work is ongoing to collect information on the cost and useful lives of the components to inform the depreciation calculation. The current estimate is based on current headline component data as an indication, but this will change as work is completed.

- Impairment of assets – under the Self-financing regime the impairment costs (that is when an asset value reduces) are a real cost to the HRA, and must be funded from rents in the year they occur. This could result in a major increase in rents in a particular year. This is a considerable additional risk to the HRA, as impairment costs have previously not impacted on HRA balances. To mitigate this risk in the short-term the self-financing regulations allowed for the first 10 years of asset value increases to be charged to an impairment reserve to protect against future losses.

  The current economic position means that asset values are unlikely to increase significantly over the medium-term to create provision in the impairment reserve, so it would be prudent for the HRA to contribute to the earmarked reserve while the current economic forecast suggests there is a risk of potential impairment. It is suggested that £0.250m per year is contributed to the earmarked reserve to mitigate against this risk.

23. Asset Management

23.1 In practice this means that Councils must plan the way that they manage their assets. Ensuring that assets are maintained to a standard that enables them to continue to generate rent income is a key element of the self-financing HRA. The current business plan profile for asset management need has been derived locally from conditions surveys and the records held on housing stock showing implementation of Decent Homes and known risk factors.

23.2 Detailed work on the long-term asset management and debt strategy is still ongoing. The current forecast maintenance and investment costs as a result of the asset management planning are set out in the Business Plan.

23.3 Assessment of asset management need identified a number of asset types where there is a disproportionate need for spend. These asset types need a strategic review to consider options for repair and/or replacement. These more detailed reviews are ongoing. The areas subject to a strategic review are:

- sheltered housing schemes;
- assets in likely regeneration areas; and
- rural stock.

23.4 Work is also progressing on an area basis, to consider the best means of renovating, renewing or replacing the current assets in the HRA, where it is not economic for the Council to continue with a programme of ongoing repairs and maintenance. These properties are also often expensive for tenants in terms of heating and lighting costs. Work is beginning to develop detailed business cases around substantial investment work for the HRA. The capital resources included in the long-term asset management programme (Annex 1a) may be reallocated as a result of this work.

24. Debt Financing

24.1 Having considered the guidance from both CIPFA and Sector (the Council's Treasury Advisors) the Council chose to incorporate the HRA debt into the Council's overall borrowing portfolio, creating a single pool and charging interest to the funds in proportion to the debt held by each. This has the advantage of spreading the risk, particularly around refinancing of debt, across the Council and minimises the impact to the HRA of any unknown fluctuations in either expenditure or interest rates. The uncertainty in terms of HRA asset management planning also mean the HRA would be been carrying significant cost of carry risks, as an individual repayment profile could not be determined.

24.2 The cost of borrowing for the HRA is currently at 4.1% based on the current loans pool rate. However, this rate is variable and if the Council takes on additional debt (see Treasury management section 27) the cost to the HRA may increase. The current projected debt cost is included in the HRA Business Plan, based on current projected future debt costs.

24.3 The HRA Business Plan currently assumes that debt for the HRA is not repaid. Therefore identifying the resources available for investment. However, this means that the Council will bear a risk of needing to refinance the debt in future years, alongside the other borrowing undertaken on behalf of the Council.

24.4 The Council's treasury management strategy addresses the management of borrowing and the relative refinancing risk. While the projections for the medium-term show interest rates remain low, this risk is relatively low. If the projections in the Business Plan are being used to finance a long-term replacement programme, some allowance for additional future borrowing costs as a result of refinancing should be incorporated.

25. Balances and Reserves for the HRA

25.1 As part of the HRA budget setting processes, the risks in the HRA are reassessed to determine a prudent minimum level. This level has been assessed at £4.1m for 2012/13. This will be reviewed before setting the 2013/14 Budget and rent level.

25.2 The self-financing settlement introduced a debt cap for the HRA, meaning that the Council cannot take on additional borrowing to fund capital expenditure. This is a key difference to the management of capital projects in the Council's capital programme. This means the total impact of any overspends on capital projects would need to be met by the HRA in a single financial year. In light of the potential major development work planned in the HRA for the medium term, this is a significant risk. The Community Energy Saving Project (CESP) showed that the potential costs of major works could increase substantially as exploratory work takes place.

25.3 In reviewing the potential financial risks to the HRA a number of issues have been identified, where it would be prudent to begin to develop some earmarked provision. It is therefore recommended that the following earmarked HRA reserves are created, with contributions in 2012/13 either if resources allow and with ongoing budgeted contributions as part of the HRA Business Plan.

Table 22: Recommended Earmarked Reserves for the HRA

Reserve	***Reason***	***Contribution (per year) £m***
Impairment Reserve	To allow the potential costs of an impairment to fixed assets to be phased over a number of years, to prevent a major rent increase.	0.250
Debt refinancing reserve	To phase the costs of any significant increases in debt financing costs	0.100
Major project costs	To provide for major variations in the costs of capital schemes, as additional borrowing cannot be undertaken.	0.500
Total annual contributions to earmarked reserves		**0.850**

26. Summary Position

26.1 The forecast income and expenditure for the Housing Revenue Account, taking the income and expenditure assumptions into consideration, is detailed in Annex 1b and summarised in Table 23.

Table 23: Summary of Housing Revenue Account

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

26.2 The plan has been designed to project a sustainable position for the Housing Revenue Account, given that the balances are not allowed to fall below a minimum balance of £4.1m.

27. Treasury Management

27.1 The Council's Treasury Management Strategy provides the framework within which authority is delegated to the Corporate Director Resources, to make decisions on the management of the Council's debt and the investment of surplus funds. The Council is authorised to borrow on a long-term basis to finance capital expenditure and short-term to deal with cash flow fluctuations pending the receipt of revenues.

27.2 The detailed Treasury Management Strategy and Policy is updated on an annual basis alongside the Budget Report.

27.3 The Council's Investment Strategy outlines the investment priorities:

- **Security** – protecting funds by managing the credit risk associated with investment decisions.
- **Liquidity** – the ability to fulfil spending obligations and maintain service delivery.
- **Yield** – achieve optimum returns on investments, consummate to the Council's appetite to risk.

27.4 The Council have appointed Sector as its Treasury Advisor and they provide strategic advice to the Council as well as daily updates on a range of market and credit information.

27.5 The Council maintains a lending list which is regularly updated using credit ratings and other information. Limits are placed on the levels and maturity profile of deposits made with individual institutions.

27.6 The Prudential Code for Capital Finance incorporates a number of indicators which are designed to ensure that:

- Capital programmes are affordable.
- External borrowing and other long-term liabilities are within prudent and sustainable levels.
- Treasury Management decisions are taken in line with professional good practice.

27.7 Table 24 shows the medium term borrowing forecast requirements against the expected level of external debt held.

Table 24: Borrowing Requirement and External Debt

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing Requirement				
Opening Capital Financing Requirement	560.4	561.4	577.1	589.9
Major Projects:				
Residual Waste Project (timing to be confirmed based on tenders)	0.0	0.0	0.0	125.0
Infrastructure Investment	0.0	14.0	9.0	9.0
Other net financing requirements	1.0	1.7	3.8	-10.1
Closing Capital Financing Requirement	**561.4**	**577.1**	**589.9**	**713.9**
External Debt Position				
Opening External Debt	443.6	445.6	475.6	504.4
New Borrowing	20.0	50.0	30.0	135.0
Scheduled Repayments	-18.0	-20.0	-11.2	0.0
Closing External Debt Position	**445.6**	**475.6**	**504.4**	**639.4**

27.8 The timing of external borrowing is a treasury management decision dependent on expenditure forecasts, cash-flow resources and market conditions, and is not directly associated with any particular items of expenditure (in line with legislation).

27.9 The difference between the Capital Financing Requirement and External Debt position is referred to as 'internal borrowing' – the funding of capital financing needs through the use of temporary cash-flow resources in lieu of external borrowing. This strategy is prudent in the current economic climate as counterparty risk is high and investment returns are low.

27.10 The Council is planning to borrow to fund a number of major investments:

- The purchase of assets from the Homes and Communities Agency will potentially be funded through additional borrowing. The current estimate is that the cost of the scheme will be £32.0m in December 2012/13. The short-term costs of borrowing will be funded through the New Homes Bonus. In future years capital receipts will be used to reduce the need for borrowing and ensure the Council continues to meet its requirements under the prudential borrowing framework.
- The Council is implementing a project to develop a Residual Waste Treatment Facility; the current estimate is that the facility will cost £125m in 2016/17 and will be funded through prudential borrowing. The current Medium Term Financial Plan is creating a budget to meet these costs through its Sustainability Items. As the project develops the costs and timing of payments will be confirmed.

- The Council is considering an investment in Highways Infrastructure funded through prudential borrowing. The current Medium Term Financial Plan is creating a budget to meet these costs through its Sustainability Items. The proposal to use this funding is elsewhere on this Cabinet agenda.

27.11 In addition to these major schemes the Council undertakes borrowing to fund its Capital Programme. The majority of Government capital funding for the medium term is expected to be through capital grants rather than supported borrowing, which reduces the requirement to borrow.

27.12 The net resources position set out in Table 18 shows that the Council's current expenditure needs can be met over the medium term through the re-phasing of schemes.

28. Risks

28.1 A critical element of the MTFP is to ensure that the financial consequences of risk are adequately reflected in the Council's finances. All of the main risks that face the Council are considered in order to assess the likelihood of the risk happening and the potential financial implications.

General Fund

28.2 The most significant financial risks are:-

28.3 Pay award settlements exceed the provision in the MTFP.

Action: National feedback is used to inform the pay projections within the MTFP and provision for future pay awards has been included. These assumptions will be reviewed in future years.

28.4 Rising costs of social care provision.

Action: The Council will continue to improve its contracting and commissioning arrangements for Children's and Adult Social Care to reduce costs. The Council will continue to raise the need for a national solution to the long-term sustainability issue for social care.

28.5 Impact of Job Evaluation on the pay bill across the Council exceeds the provision in the MTFP.

Action: To ensure a prudent financial position is maintained, some one-off costs have been identified and included in the 2013/14 Budget as the potential transitional costs of this change. Modelling and negotiation have yet to be completed, but resources will be considered as part of the final solution and the MTFP impact updated accordingly.

28.6 Planned savings or cost reductions are not achieved or are delayed.

Action: The General Fund Reserve has been increased by £1.5m as part of the 2012/13 Budget. This will allow some flexibility over the timing of the savings being fully realised. Management action to monitor and deliver the planned savings or cost reductions includes highlighting issues early to ensure appropriate in year action can be taken. The delivery risk in relation to future pressures and savings will continue to be assessed, and used to inform the requirement for future reserves.

28.7 The Council fails to address the future anticipated funding shortfalls.

Action: OTP activity is progressing and contracts are being continually reviewed and renegotiated to reduce costs. The Council has a good record of identifying and delivering budget savings. CLT will continue to drive service re-design and efficiency to ensure the Council remains in a strong financial position.

28.8 Uncertainty around grant levels beyond 2012/13 and the impact of the Local Government Resource Review.

Action: Prudent forecasts of reduced Government funding and specific grants have been included in the MTFP, which will be updated as further information is known.

28.9 Uncertainty regarding the future of Government Funding for public health budgets which are scheduled to transfer from the NHS with effect from April 2013.

Action: Strand 3 of the Organisational Transformation Programme includes the development of a shadow Health and Well-Being Board and will enable the Council to work with the Primary Care Trust to resolve the future management of Community Health Services and the transfer of Public Health Services.

28.10 A local policy is not implemented to mitigate the Tax Base increase caused by the changes to Local Council Tax Support. This will result in a reduction in income of £2.7m above the level included in the MTFP.

Action: A local Council Tax Support Scheme is currently being developed for consultation. The implications of the proposed changes are been identified and the potential financial consequences of not implementing sufficient measures in the local scheme have been highlighted.

28.11 Inflationary increases may exceed the provision in the MTFP.

Action: Provision has been included within the MTFP and is shown in Table 11. This will be regularly reviewed to ensure it remains a prudent forecast.

Housing Revenue Account

28.12 The most significant financial risk is:

28.13 A reduction in rental income due to the changes to welfare reform.

Action: The HRA Business Plan as reduced the forecast rental income by 1% to allow for the potential loss in funding due to this change. The impact of changes will be closely monitored and the impact on the Business Plan will be considered before any long-term investment decisions are made.

Capital

28.14 The most significant financial risks are:-

28.15 The cost of work required to repair and maintain the Council's infrastructure assets exceeds the funding provision available.

Action: Annual provision for Revenue Contributions to Capital Outlay (RCCO) has been included to support additional capital investment in the medium term. The Council is also developing a better view of its long term requirements to better inform this strategy.

28.16 The statutory requirement for the Council to provide school places exceeds the funding available to meet this provision.

Action: The Council will continue to develop its modelling of future school place requirements and use this to lobby DfE for additional funding to meet statutory requirements.

28.17 The final cost of an alternative solution for the Residual Waste Treatment Project exceeds the provision in the MTFP.

Action: Budgets will continue to be increased for the duration of the MTFP or until the costs of the residual waste project are confirmed. The cost of the project is based on a detailed model for a facility; this will be developed based on final contract price. Affordability is a major consideration as part of the tender evaluation.

28.18 Consequences of significant variations to planned expenditure against the capital programme. Variations can arise for many reasons including tenders coming in over budget, changes to specifications and slippage or acceleration of project phasing. There is also the possibility of needing to provide for urgent or unplanned capital works.

Action: This is mitigated through formal monthly monitoring and management of schemes in the programme, and a requirement that spending commitments should not be entered into without confirmation that resources are available.

28.19 The Council will continue to identify and manage major risks as part of its budget monitoring process. These will also be considered alongside the development of detailed budget proposals to ensure the potential financial consequences of risks are considered.