

# Executive Report



Cabinet – 3 December 2024

## **DRAFT COUNCIL BUDGET 2025/26 AND MEDIUM TERM FINANCIAL PLAN 2025/26 TO 2028/29**

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(Deputy Leader and Cabinet member for Resources and Customer Experience)

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Exempt / confidential / not for publication	<b>No</b>
Council Plan reference	<b>1 – “A Balanced Budget”</b>
Wards affected	<b>All wards</b>

### Executive Summary

This report sets out the draft Milton Keynes City Council (Revenue) Budget for 2025/26, the latest Medium Term Financial Forecast for the period 2025/26 to 2028/29, the draft Capital programme for 2025/26 to 2029/30 and the draft Housing Revenue Account Budget for 2025/26, together with business plan forecasts to 2028/29. It’s proposed that Public consultation commences on 4 December 2024.

The 2025/26 Draft General Fund budget whilst balanced, contains several key assumptions relating to government funding and the impact of the recent National Insurance increase announced as part of the Autumn Budget. Depending on decisions yet to be made and published by MHCLG and Treasury, there are risks that further savings will need to be identified ahead of publication of the Final Budget in February 2025.

In February 2024 we had forecasted that the budget gap for 2025/26 was £2.717m. The impact of significant pressures in Children’s Social Care and higher than anticipated inflationary pressures has resulted in a far larger gap at September of £18.266m. The draft budget has been balanced through a proposed increase to Council Tax of (4.99%), assumed increases to Government funding following the Autumn Budget and a series of budget reductions and income proposals from services. Whilst the draft budget is currently balanced there is significant uncertainties with some elements of future Government funding as we are still

waiting for the Local Government Finance Policy and Financial Settlement. This report sets out the approach and assumptions that we have adopted for this draft budget.

Plans beyond 2025/26 will not be known until after the Comprehensive Spending Review in spring 2025 and further consultations later in 2025.

The context for the 2025/26 remains extremely challenging both nationally and globally. In particular:

1. Growth is projected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅓ per cent by 2029.
2. Inflation remains below the Bank of England target of 2%, however this is now expected to rise to 2.6% before gradually falling back to the 2 per cent target in 2029.
3. The Council has therefore formulated its draft budget and its Medium Term Financial Plan based on a series of assumptions arising from the Chancellors Budget.

The details in this report have been prepared in accordance with the framework set out in the Medium Term Financial Outlook approved by Cabinet in September 2024.

Like the General Fund, the Housing Revenue Account (HRA) faces significant pressures that exceed the level of income we receive in rents. This is due to inflation, higher costs to meet regulatory pressures, compliance costs and borrowing costs. As a new town and now a city, we grew quickly and that gives us further challenges with our stock, with similar ageing profiles and a substantial proportion of our stock being built from non-traditional construction materials, so we face several significant asset related challenges at the same time.

The capital programme for 2025/26 has been refreshed to reflect revised expenditure profiles of existing projects, and the inclusion of rolling programmes for 2029/30. Capital resources are challenged, and this has resulted in only essential projects, or those with ring fenced funding being added to the programme.

## 1. Decisions to be Made

1.1 That Cabinet notes and endorses the following draft budget proposals, which are subject to the outcomes of consultation, due to commence on 4 December 2024, and confirmation of the Local Government Finance Policy Statement and the Provisional Local Government Finance Settlement. The decision includes noting the Capital Programme and additional schemes and changes to the Programme with it noted that the decision to release funding will be made by the s151 Officer once confirmation of available funding has been received:

- (a) the draft Revenue Budget for 2025/26 (attached at **Annex A** to the report) and the latest MTFs forecast for 2025/26 to 2028/29 (attached at **Annex B** to the report);
- (b) to note the new budget pressures at **Annex C and D**;

- (c) to note the proposed budget reductions and additional income proposals at **Annex E**;
- (d) the provisional Council Tax at Band D of £2,439.77 for the Milton Keynes element of the Council Tax be agreed for consultation, a 4.99% increase on the previous year (2.99% core increase plus a 2.00% Adult Social Care Precept);
- (c) the Council's current estimate of the 2025/26 Business Rates Baseline at para 4.36, retaining the delegation to the Director of Finance and Resources to finalise this Baseline, based on the latest data for submission to Ministry of Housing, Communities & Local Government (MHCLG) in January 2025;
- (d) the estimated position for the Dedicated Schools Grant and the planned consultation with the Schools Forum;
- (e) that the Director - Children's Services makes decisions around the school funding formula, the funding arrangements for pupils with high needs and the early year's single funding formula for 2025/26 in consultation with the Cabinet Member for Children and Families and the Director for Finance and Resources (paragraphs 4.56 - 4.65);
- (g) the proposed fees and charges for 2025/26, which are exceptions to the Income and Collection Policy (attached at **Annex F** of the report);
- (h) the draft forecast parking surplus of £13.379m (attached at **Annex G** of the report);
- (i) the draft Capital Programme for 2025/26 to 2029/30 (attached at **Annex H** of the report);
- (j) the resource allocation for the draft Tariff Programme (attached at **Annex I** of the report); and
- (k) the equalities impact assessments for the draft Revenue Budget 2025/26, as set out in Section 5.
- (h) the draft Housing Revenue Account (HRA) budget which has been updated for technical adjustments, revenue pressures and savings and a refresh of the capital programme, including a rent increase of 2.7% for tenants and 7.7% for shared owners (attached at **Annex N** of the report).

## 2. Why is the Decision Needed?

### 2.1 The purpose of this report is to:

- ensure that the Council meets its legal obligations to set a robust balanced budget for 2025/26;
- update and extend the Council's financial forecasts for the period 2025/26 to 2028/29; and

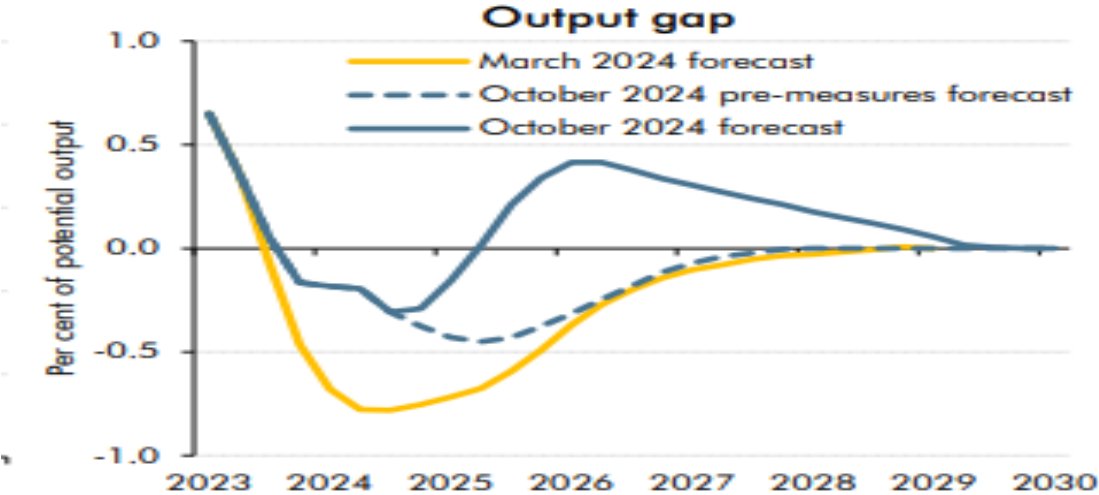
- to set out our approach to addressing the financial challenges over the medium term and managing short term uncertainty.
- 2.2 The Council has a clear ambition as set out in the Council Plan and has made a commitment to continue to grow and enhance Milton Keynes through the Strategy for 2050 and the current draft of the MK City Plan 2050. These commitments are alongside the continued financial challenges for the Council.

### 3. Background

#### National Economic Position

- 3.1 The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. After contracting in the second half of 2023, the economy rebounded in the first half of 2024, with GDP growth driven by business-facing services. Growth is expected to continue over the rest of 2024, albeit at a more modest pace, and economists forecast the economy to expand by just over 1% in 2025.
- 3.2 Inflation has subsided, with consumer prices up by 1.7% in September 2024 compared with a year before, much lower than the period of high inflation seen in recent years. This has boosted household incomes, as average wages are rising faster than prices. The Bank of England is expected to continue to cut interest rates further in 2025, though more slowly than had previously been expected.
- 3.3 The Autumn Budget is expected to deliver a large, sustained increase in spending, taxation, and borrowing. Budget policies increase spending by almost £70 billion (a little over 2 per cent of GDP) a year over the next five years, of which two-thirds goes on current and one-third on capital spending. As a result, the size of the state is forecast to settle at 44 per cent of GDP by the end of the decade, almost 5 percentage points higher than before the pandemic. Half of the increase in spending is funded through an increase in taxes, mainly on employer payrolls, on assets, and through greater tax compliance. These raise £36 billion (just over 1 per cent of GDP) a year in additional revenue and push the tax take to 38 per cent of GDP by 2029/30. The other half of the increase in spending is funded by a £32 billion (1 per cent of GDP) a year increase in borrowing.
- 3.4 The economy is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅓ per cent, over the remainder of the forecast. Budget policies are expected to push up CPI inflation by around ½ a percentage point at their peak, meaning it is projected to rise to 2.6% in 2025, and then gradually fall back to target.

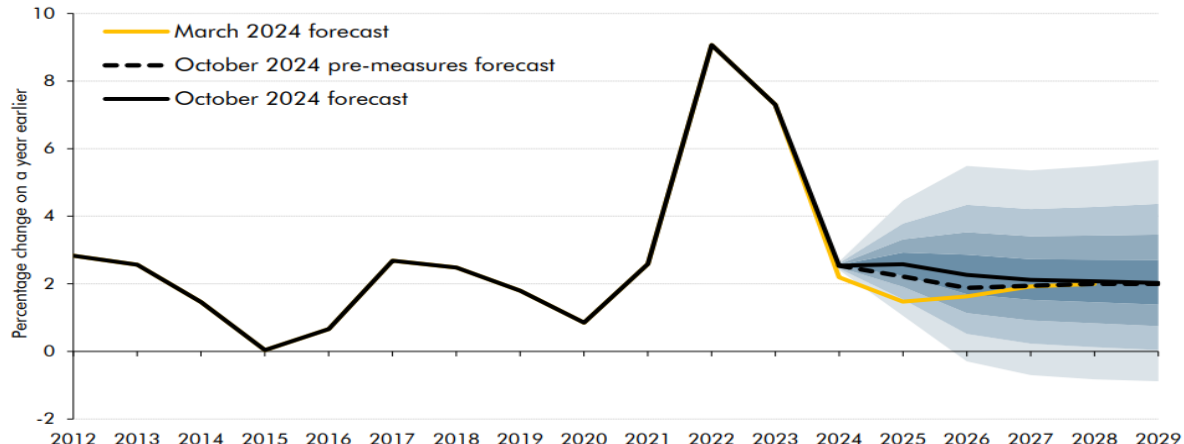
**Chart 1: Gross Domestic Product (GDP)**



3.5 Borrowing is projected to rise marginally from £122 billion (4.5 per cent of GDP) last year to £127 billion this year, before falling back to £71 billion (2.1 per cent of GDP) in 2029/30. The Budget sets two new fiscal rules: to deliver a current balance and for net financial liabilities to be falling, both initially in five years.

3.6 Annual CPI inflation is expected to remain close to the 2 per cent target throughout the forecast period. The OBR expect a temporary rise, from around 2 per cent in the third quarter of this year, to an average of 2.6 per cent in 2025/26. This is driven by higher gas and electricity prices, the direct effect of policies announced in the Autumn Budget, and the effect of a small positive output gap on domestically generated inflation. CPI inflation should then gradually falls back to the 2 per cent target in 2029 as the positive output gap closes and energy price growth normalises.

**Chart 3: CPI Inflation Forecast**



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.  
Source: ONS, OBR

3.7 It is extremely difficult to predict what impact the current economic challenges, both globally and nationally, are going to have over the medium term, and this represents significant uncertainty for the Council. However, we continue to face a number of other significant financial concerns:

- The government confirmed through the Autumn Budget that the provisional 2025/26 settlement would be a 1-year settlement completing Phase 1 of Spending Review 2025, which resets departmental budgets for 2024/25 and sets budgets for 2025/26. Phase 1 focuses on stabilising and supporting public services and delivers a real terms increase in departmental spending of 4.3% per year on average over 2024/25 and 2025/26.
- Phase 2 of the Spending Review, will conclude in late spring 2025. Phase 2 will take a mission-led, reform-driven, technology-enabled approach to funding public services while investing in long-term growth. This causes uncertainty over the medium term.
- In the Autumn Statement, the initial reaction is that there is more funding for local government in 2025/26 than we had been anticipating, confirming a 3.2% real-terms increase in spending power for local government in 2025/26, however this includes Council Tax and Business Rates increases, which we have already accounted for. The budget states that an additional £1.3bn of extra grant will be paid to local government in 2025/26 this includes at least £600m for social care. The budget documents confirm that for 2025/26 that the remaining funding will be targeted to those councils most in need and not based on current formulas.
- The budget in key areas of demand such as Adult and Children’s Social Care and homelessness has been significantly impacted by increased complexity, the ongoing challenges in the health service and external markets and the wider economic climate, so these budgets will be closely monitored and reviewed again prior to the Final Budget.

## 4. Medium Term Financial Outlook

- 4.1 The Medium Term Financial Outlook was refreshed in September 2024. This budget and refreshed Medium Term Financial Outlook have been updated to reflect the recent Budget and further changes to the budget following work with Budget Holders.
- 4.2 This draft budget is still subject to potentially significant change, as we await details of the funding settlement and details of the government’s proposals to address the impact of the ER NIC’s increase on local government. At this stage in the budget process the budget is balanced with a contingency of £3.3m.

### Corporate Planning Assumptions

- 4.3 The draft MTFP is summarised in Table 1. Over the four years we currently have a base budget funding gap of £21.836m. The position has improved since the previous 4 year outlook in September. Whilst we have had to add in further cost pressures (demand, inflation and some specific pressures), these have been more than offset by the inclusion of £8.329m of new savings, forecast additional government funding and a higher proposed increase in Council Tax of 4.99%. This now means that the gap in 2025/26 has been

completely removed. The projected gap over four years since September has decreased from £39.293m to £21.836m.

**Table 1: Medium Term Financial Plan – Movements since 2024/25**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Government Funding Adjustments	(9.539)	3.137	(2.694)	(2.748)
Local Funding Sources	(12.422)	(8.738)	(9.237)	(9.624)
Pay, NI Contract and Other Inflation	11.926	10.986	10.558	11.198
Budget Service Pressures	19.882	6.669	7.098	9.283
Capital Financing Costs	0.445	(0.157)	(0.408)	0.000
Corporate Measures	(1.275)	(3.981)	0.015	2.678
One-off Pressures	1.599	0.973	0.750	0.250
<b>Total Pressures</b>	<b>10.615</b>	<b>8.889</b>	<b>6.082</b>	<b>11.036</b>
Total Service Budget Reductions and Income Proposals	(9.016)	(1.215)	(0.475)	(0.509)
Less Reserves applied to one-off pressures	(1.599)	(0.973)	(0.750)	(0.250)
<b>Budget Gap</b>	<b>0.000</b>	<b>6.701</b>	<b>4.857</b>	<b>10.277</b>
<b>Budget Gap (cumulative)</b>	<b>0.000</b>	<b>6.701</b>	<b>11.558</b>	<b>21.836</b>

**Narrative – Key Changes since February 2024**

- 4.4 A further provision of £3.741m has been made to cover the impact of inflationary pressures (mainly relating to the higher than expected National and Real Living Wage increases announced in October) and £14.158m covering demand (mainly Children’s Social Care).
- 4.5 Total spending on Adults Social Care has increased by £7.352m, which is mainly due to the increase in the National Living Wage, increase in Inflation and rising demand.
- 4.6 Total spending on Children’s Social Care has increased by £14.264m, which is significantly more than previously forecast and will need to be managed carefully given the significant volatility and high individual package costs. The Councils ability to source more appropriate provision for our most vulnerable young people will be critical to helping the Council remain financially sustainable. This pressure takes account of contributions that we expect to recover from health for children with significant and complex medical needs requiring a specialist residential placement. This amounts to 7% of the total placements budget.
- 4.7 The Council has managed to stabilise the level of spending on Homelessness and through a range of actions expects a demand pressure of £0.200m over the Medium Term; this has reduced the overall pressure by £0.400m.

However, given the volatility of this area, we will be undertaking a further detailed review before we finalise the budget.

- 4.8 The significant increase in cost pressures has meant that the Council had needed to identify further budget reductions and additional income from services totalling £8.504m. These proposals are set out at **Annex E**.
- 4.9 In the absence of the Local Government Finance Policy Statement and Provisional Local Government Finance Settlement we have made some key assumptions on funding based on the recent Autumn Budget and advice from Pixel Consulting on potential funding shares that MKCC might receive for 2025/26. Clearly there are risks that these assumptions are materially wrong, and funding could be lower than we are assuming.
- 4.10 We have added additional funding of (£13.049m) to the draft budget. All of this funding is yet to be confirmed and is therefore not certain. (£5.6m) is New Homes Bonus, this will be transferred to reserves to fund one-off pressures and the cost of change to deliver the budget reduction proposals. The government funding added has been based on modelling provided by Pixel which projects the distribution of the funding announcements in the Autumn Budget. It should be noted that there was very little detail set out in the budget so some of the assumptions made may require material revisions by the time we publish the final budget.

**Table 2.0 – Projected Funding Streams from Autumn Budget**

<b>Funding Stream</b>	<b>Autumn Budget Control Total £M's</b>	<b>Commentary</b>	<b>Assumed MKCC Impact £M's</b>
New Social Care Grant	600	£1.43m estimated allocation based on existing formula	1.43
Revenue Support Grant Uplift	282	A 1.7% increase has been assumed in line with the statement in the Autumn Budget	0.12
Additional funding (distribution based on deprivation)	700	Pixel have indexed Settlement Funding Assessment (SFA), leaving £497m for targeted funding. This has been distributed based on the overall IMD score.	2.25
Funding to cover increase in Employers NIC on direct staffing	4,745	Estimated impact on MKCC is £2.234m. We are expecting the government to compensate for this additional cost from the £4.745bn shown in the Autumn Budget control totals for NI impact on Public Sector.	2.23



Funding to cover increase in Employer's NI contributions on suppliers particularly social care providers.	Nil	There is no specific direct funding set aside in the announcement to account for the impact on local government suppliers and social care providers. It is estimated that the cost to our entire supply chain for all services could be as much as £5m. We are waiting to see how government intends to proceed.	Unknown
Homelessness Prevention Grant	233	MKCC share estimated at £1.35m based on existing funding and data distribution.	1.35
New Homes Bonus	303	We are assuming that the scheme will continue for a further year and the pot and distribution method are unchanged.	5.61

## Narrative – Key Changes since September 2024

### General Fund Expenditure

4.11 Our baseline assumptions of demand, demography and inflation together with a revised view of income and funding were refreshed in the September update of the MTFO. Any further changes from September are summarised in Table 3.

**Table 3: Medium Term Financial Plan – Movements since September 2024**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
<b>MTFP – September 24</b>	<b>18.266</b>	<b>6.727</b>	<b>6.659</b>	<b>7.641</b>	<b>39.293</b>
<b>Changes:</b>					
Demand Pressures	(0.603)	(0.984)	0.103	1.695	<b>0.211</b>
Choice Based Pressures	(0.274)	0.474	(0.025)	(0.025)	<b>0.150</b>
Inflation Cost Pressures	1.228	(0.052)	0.081	0.170	<b>1.428</b>
Business Rates	1.621	1.046	(0.305)	(0.301)	<b>2.060</b>
Council Tax	(4.547)	(1.100)	(1.181)	(1.247)	<b>(8.074)</b>
Grant Funding	(13.049)	5.617	0.000	0.000	<b>(7.432)</b>
Budget Reductions	(6.504)	(1.031)	(0.475)	(0.319)	<b>(8.329)</b>
Contingency and Other Corporate	3.863	(3.996)	0.000	2.663	<b>2.530</b>
<b>Draft Budget</b>	<b>0.000</b>	<b>6.701</b>	<b>4.857</b>	<b>10.277</b>	<b>21.836</b>

### Key Movements Since September

#### Changes to Demand Cost Pressures

4.12 **Adult Social Care** – Demand pressures total £6.041m, at Q1 the demand pressures totalled £3.941m. The changes relate to Older People which has increased by £0.745m, due to support at home packages which have increased by 8% between April 2024 and September 2024. The Physical Disability pressure has increased by £1.404m due to autism packages increasing by 40%

from 48 in April 2024 to 66 in September 2024. Additional pressures of £0.121m are included on the Integrated Community Equipment Contract and £0.050m on Minor Adaptations, due to increasing demand.

4.13 **Homelessness** – Demand pressures total £0.200m for 2025/26, and this has not changed since Q1, future years pressures have been removed. Additional budget for 2025/26 is required due to low levels of move on accommodation and prevention, coupled with a higher number of homelessness applicants. The reduction in ongoing pressures is a result of leases with Enhanced Private Sector Landlords coming to an end and increasing efforts to move Temporary Accommodation households to lower costing accommodation rather than expensive nightly lets. There is a risk that the cost-of-living impact, combined with the freeze in LHA rates will continue to result in an increase in demand, therefore this area will need to be monitored closely. We are anticipating an additional £1.3m uplift on the Homelessness Prevention Grant in 2025/26, increasing the total grant received to £4.107m. This grant contributes towards the significant costs of managing our homelessness pressures we are also assuming that we will continue to receive Rough Sleeping grants received in year totalling £1.759m.

4.14 **Children's Services Demand** - Demand pressures total £13.075m, at Q1 this was £14.818m, of this, the pressure for social care placements is £10.052m. In October 2024, our Looked After Children (LAC) numbers were 488, increasing from an average of 379 during 2023/24 (29% increase). The largest pressure area is for high-cost residential placements, due to the complexity in need and number of children coming into care. As of October 2024, there were 54 residential, unregulated, and secure placements compared to an average of 24 during 2023/24.

The impact of our growing LAC population has meant we have seen budget pressures in legal care proceedings (£0.500m) as the number of open proceedings increased from 55 in September 2023 to 88 in September 2024 (60% increase). In addition, applications for financial support for children and families coming through to Resource Panel has increased resulting in a budget pressure of £0.200m

Children with Disabilities pressure is £1.067m, this is due to an increase in the number of packages of support for children. There is forecast to be 348 packages open for children during 2024/25, increasing from 287 during 2023/24 (21% increase).

The pressure on School Transport Support (STS) is £0.053m, this is an area that continues to see demand pressures largely correlated to the Education Health Care Plans increased numbers. The pressure in 2025/26 is lower than future years as a result of commissioning and routing efficiencies achieved during 2024/25.

4.15 **Children's Services Staffing** - Additional staffing is required across Children's Services totalling £0.561m, at Q1 staffing pressures were £0.401m. The staffing teams requiring additional resource due to increased demand are Corporate

Parenting (£0.316m), Children with Disabilities (£0.109m), Family Time service (£0.116m) and funding for a new Statutory Assessor (£0.020m), which will enable us to recruit more newly qualified social workers. This will enable the service to continue to meet statutory timelines as per the regulatory guidance and ensure capacity can meet increasing demand.

#### Changes to Inflation Cost Pressures

4.16 **Pay Inflation** - we have reviewed our assumptions on pay and in line with most other Councils have made a provision for pay inflation of 3% in each of the next 4 financial years. This will be reviewed prior to the finalisation of the budget in February 2025.

4.17 **Employer National Insurance** – The recent budget confirmed that ER NIC's would increase from April to 15% (currently 13.8%) and that the threshold would reduce from £9,100 to £5,000 for when NIC's would be payable. This has two impacts for MKCC:

- Direct workforce – estimated additional costs of £2.283m.
- Third Party Contracts – provisional estimated additional cost to our providers and key contractors of up to £5m

In terms of our direct workforce, we are assuming that the additional costs will be offset through additional funding. We have therefore added this cost pressure in but offset this with an assumed additional grant netting this pressure to nil. For Public Health, the expected increase in staffing cost is £0.025m; as the grant is ring-fenced and not assuming any increase for 2025/26, the additional cost will be offset by the annual budgeted contribution to reserve and therefore a net nil impact.

The impact of the National Insurance increase on our providers and suppliers is significant. Like all Councils we are waiting to see how government intend to address this issue and will assess this ahead of finalising the budget in February 2025. In the event that government do not fund these costs, particularly in relation to Adults Social care providers and commissioners will be left with very difficult choices.

4.18 **ASC and Children's Services** - inflation has been recalculated to take account of CPI rate as at September 2024 (1.7%) and increases to the National Living Wage and Foundation Living Wage. The Foundation Living Wage has been announced to increase by 5% to £12.60 per hour, and the National Living Wage has been announced to increase to £12.21 (6.73% increase). The inflation formula uses a blended approach to calculate the overall inflation percentage uplift.

4.19 **Environment & Property** - The Environment and Property teams manage significant contracts which are subject to contractual inflation increases. CPI, RPI and other indices for the new financial year have been updated to reflect either the September CPI or the treasury forecast for the relevant indexation periods.

## Inflation

4.20 The table below provides a summary of the inflation pressures included in the draft budget.

**Table 4: Inflation summary**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Pay Award	3.758	3.618	3.726	3.838
Pensions	0.000	1.000	0.000	0.000
NI Employer contributions	2.283	0.000	0.000	0.000
Contractual Inflation	8.896	6.427	6.883	7.403
Utilities	(0.138)	0.167	0.178	0.189
Fees & Charges Inflation	(3.582)	(0.406)	(0.414)	(0.422)
Other	0.708	0.180	0.185	0.190
<b>Total</b>	<b>11.926</b>	<b>10.986</b>	<b>10.558</b>	<b>11.198</b>

4.21 The summary of our key inflation assumptions for the draft budget are set out in Tables 4 & 5 below for 2025/26:

**Table 5: Forecasting Assumptions 2025/26**

	2025/26
General Pay Inflation	3.00%
Fees and Charges	2.20%
Water	4.00%
Electricity	5.00%
Gas	5.00%

4.22 Exemptions to the 2.2% (July 2024 CPI rate) increase in fees and charges are listed in **Annex D**.

### Contractual Inflation

4.23 Contractual inflation is based on existing contract agreements. Some of the larger contracts are detailed in Table 5.

**Table 6: Contractual Inflation Assumptions 2025/26**

Contract specific indexation:

	2025/26
Waste Collection – contract specific indexation	4.27%
Street Cleansing - contract specific indexation	4.27%
Food and Garden Waste Disposal – March CPI	2.40%
Landscape - contract specific indexation	4.27%
Ringway - highways works - contract specific indexation	2.52%

Ringway - street lighting works - contract specific indexation	2.52%
Excel Care (subject to change once updated rates/data released)	4.92%
Extracare (subject to change once updated rates/data released)	3.84%

4.24 Higher inflation forecasts have had a significant impact on the projected cost of contractual inflation as detailed in the table below.

**Table 7: Contractual Inflation Financial Summary - 2025/26**

	Feb-24 £m	Draft Budget £m	Increase £m
Adult Services			
- <i>National Living Wage</i>	1.991	3.625	1.634
- <i>Other</i>	0.580	1.041	0.462
Children's Services	0.732	2.179	1.447
Environment & Property	1.275	1.663	0.388
Other	0.077	0.388	0.311
<b>TOTAL</b>	<b>4.655</b>	<b>8.896</b>	<b>4.241</b>

4.25 Over the medium term it is estimated that contractual inflation will rise to a budget pressure of £29.6m, an increase of 64% from February 2024, which is a significant risk to the Councils financial position.

4.26 It has been assumed in the MTFP that the increase in Foundation Living Wage of 3.91% and National Living Wage of 5.17%. This remains a material risk to the MTFP projection.

#### **Budget Pressure (excluding Inflation)**

4.27 The 2025/26 budget includes total new budget pressures of **£19.882m**, an increase of **£14.158m** since February 2024. Details of all the new and revised budget pressures are set out at **Annex C** to the report. The large increase in 2025/26 takes account of the 2024/25 demand pressures as well as those in 2025/26 mainly driven by pressures in children's social care.

**Table 8: Budget Pressures 2025/26 - 2028/29**

<i>Budget Pressures by Category</i>	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Demography	6.461	5.308	6.319	7.971
Demand: Exceptional	12.851	0.952	0.779	1.312
Demand: New	0.186	0.000	0.000	0.000
Policy Choice	0.178	(0.090)	0.000	0.000
Contractual Change	0.206	0.499	0.000	0.000
<b>Total Ongoing Service Pressures</b>	<b>19.882</b>	<b>6.669</b>	<b>7.098</b>	<b>9.283</b>

## Income and Reductions

- 4.28 The scale of the financial gap for 2025/26 has required a significant level of budget reductions and additional service income to achieve a balanced position. The budget for 2025/26 as proposed will see an increase in income through these measures totalling £2.674m and new budget reductions of £6.342m.
- 4.29 We have also reviewed and updated all existing proposed budget reductions that were approved as part of the February 2024 budget report. The overall net increase in total budget reductions since February 2024 is **£8.504m**. Details of all the new and revised budget reductions are set out at **Annex E** to the report.
- 4.30 Work is being progressed to identify and deliver further budget reductions and additional income for the remainder of the MTFP. Proposals will be brought forward as they are developed to Cabinet for consideration and prioritisation to enable early implementation to ensure timely delivery.

## One-off Pressures

- 4.31 In addition, a further £1.599m of one-off expenditure has been identified in 2025/26 (attached at **Annex C** to the report). The funding for one-off expenditure is detailed in Table 9.

**Table 9: Funding for One-Off Expenditure 2025/26 - 2028/29**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
New Homes Bonus 2024/25	0.423	0.050	0.000	0.000
New Homes Bonus 2025/26	0.300	0.000	0.250	0.000
Strategic Public Health Reserve	0.419	0.423	0.025	0.000
Strategic Development Reserve	0.067	0.500	0.475	0.300
New Political Priorities Funding	0.390	0.000	0.000	0.000
<b>Total One-off Funding</b>	<b>1.599</b>	<b>0.973</b>	<b>0.750</b>	<b>0.300</b>

## Government Funding

- 4.32 The total ongoing resources forecast to be available over the medium-term are updated in Table 10.

**Table 10: Government Grant and Taxation 2025/26 - 2028/29**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Revenue Support Grant	(7.297)	(7.297)	(7.297)	(7.297)
Retained Business Rates	(82.224)	(84.704)	(87.398)	(90.146)
Council Tax (including parish precepts)	(187.541)	(196.279)	(205.516)	(215.141)
Services Grant	(0.325)	(0.325)	(0.325)	(0.325)
Targeted deprivation funding stream	(2.250)	(2.250)	(2.250)	(2.250)
NI Employer Funding	(2.283)	(2.283)	(2.283)	(2.283)

<b>Total Ongoing Resources</b>	<b>(281.921)</b>	<b>(293.139)</b>	<b>(305.070)</b>	<b>(317.443)</b>
<b>Social Care Funding</b>				
Improved Better Care Funding <sup>1</sup>	(6.176)	(6.176)	(6.176)	(6.176)
Social Care Grant <sup>2</sup>	(16.357)	(16.357)	(16.357)	(16.357)
Market Sustainability & Improvement (ASC) <sup>3</sup>	(3.973)	(3.973)	(3.973)	(3.973)
<b>Total Social Care Funding</b>	<b>(26.506)</b>	<b>(26.506)</b>	<b>(26.506)</b>	<b>(26.506)</b>

1. *Improved Better Care funding - as this funding is not directly controlled or used to fund MKCC services, this fully nets off the expenditure line in the budget. The allocation is expected to remain the same as 24/25.*
2. *Social Care funding is assumed to be an increase to the baseline funding and has been included as such, although final allocations will be determined in the settlement.*
3. *Market Sustainability and Improvement Grant is included in the base budget as this was targeted for (and has been used to) increases in provider rates.*
4. *Hospital Discharge Fund is a joint fund alongside health and is fully committed to targeted initiatives as per the grant conditions.*

### **Business Rates Baseline**

- 4.33 The Local Government Finance Act 2012 gave local authorities the power to retain a proportion of funds obtained from business rates in their area. The changes under the 'Localisation of Business Rates' mean that from April 2013 local authorities retain a share of the income they collect from business rates, as funding to meet the cost of service provision.
- 4.34 The MHCLG guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline reflects the authority's estimate of the business rates it forecasts to collect in the following financial year, offset by any reductions such as reliefs and the estimated cost of successful rateable value appeals.
- 4.35 The calculation of the Council's 2025/26 Business Rate Baseline must be formally approved, and then be submitted to MHCLG, through a statutory return by 31 January 2025.
- 4.36 In the absence of the provisional settlement, we have estimated the baseline and tariff using advice from Pixel Consulting - see Table 11 below.

**Table 11: Business Rates Baseline Distribution**

	<b>2025/26 £m</b>
Milton Keynes Council Business Rate Baseline (total business rates collected after deductions)	(230.318)
50% Central share paid to Government	115.159
1% share paid to Buckinghamshire and Milton Keynes Fire Authority.	2.303
Deductions for Tariff paid to Central Government	41.024
Levy paid to Central Government/Section 31 grant receivable	(10.139)
Renewable energy (100% retained)	(0.252)
<b>Milton Keynes Council forecast retained Business Rates Funding</b>	<b>(82.224)</b>

4.37 Overall, the business rates base has not increased by as much as expected. The main reasons relate to delays on new properties coming onto the list and an increase in the number of deletions from the list. Further work is being done to review this ahead of the final budget. As a significant part of the shortfall is due to the timing of properties coming onto the list, we have offset the shortfall against the Business Rates Cashflow reserve for 2025/26 negating this temporary impact.

4.38 We have also reassessed the appeals provision using an external assessment from our rating advisors and made a prudent estimate of new growth. The estimate has also been adjusted for inflation as follows:

- A freeze to the small business rates multiplier for 25/26.
- An increase to the main business rates multiplier of 1.6% in line with September CPI.

4.39 In terms of government funding, there is significant uncertainty surrounding any future review of Local Government Fair Funding and potential changes to the Business Rates system. We have not made any assumptions about the impact of this in the MTFP. We will revisit these assumptions as and when more information becomes available to take a more informed view on the Councils budget.

### **Council Tax**

4.40 The Referendum Limits will be confirmed in the Provisional Settlement. We are proposing that the increases for 2025/26 are set at the expected referendum limits of 2.99% for the general increase and 2.00% for the Adult Social Care Precept.

4.41 The draft budget includes the following Council Tax increases.



**Table 12 – Council Tax**

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
MKCC Band D	2.99%	1.99%	1.99%	1.99%
ASC Precept	2.00%	1.00%	1.00%	1.00%
<b>Total Increase</b>	<b>4.99%</b>	<b>2.99%</b>	<b>2.99%</b>	<b>2.99%</b>

4.42 A report was brought to Cabinet on the 5 November 2024, setting out the Council Tax Base for 2025/26. It was confirmed that the Tax Base for 25/26 would increase to 99,634.75 Band D equivalent properties, an increase of 2,439.77 from 2024/25. Further details are available in the Tax Base report [Council Tax Base](#)

4.43 Overall Council Tax income is anticipated to increase by £12.422m in 2025/26; this total comprises £8.333m generated from a 4.99% increase to the charge and an increase of £4.089m arising from the increased tax base.

#### ***New Homes Bonus***

4.44 Based on the Autumn Budget, which stated that existing funding would continue into 2025/26, we are projecting that the Council will receive circa £5.6m of New Homes Bonus Funding in 2025/26. Subject to confirmation, we have provisionally allocated £0.550m to finance proposed one-off pressures with the balance held to meet the costs of change from measures proposed in this budget.

#### ***Debt Financing***

4.45 The Council operates separate loans pools for the General Fund and HRA, with costs borne directly and decision-making taken independently. The Council's General Fund debt financing budget manages the requirements for external debt including minimum revenue provision (MRP) and loan repayments, and the investment of cash-backed reserves and balances.

4.46 The 2025/26 General Fund budget proposals include changes that reflect latest projections for external interest rates and internal accounting requirements, as well as projections for cashflow movements and consequential impact upon investment balances. The General Fund has sufficient cash-backed reserves and balances to negate drawing any new external debt, with existing external debt set to be repaid upon maturity. If new capital funding proposals are brought forward, funding by borrowing may be considered and presented to Cabinet and Council where appropriate.

4.47 The Council's Treasury Management Strategy will be presented to Cabinet as part of the Final Budget Proposals in February 2025.

#### ***Parking Account***

4.48 The Council provides car parking to serve local residents, businesses and visitors with charges set for parking management purposes in accordance with section 45 and 122 of the Road Traffic Regulation Act 1984.

- 4.49 As in previous years, the Council has estimated the likely income it will receive from car parking in 2025/26, the costs that are required to manage car parking, and has considered the need for additional car parking.
- 4.50 Parking income during 2024/25 has continued to recover since the significant drop during the pandemic and also as a result of a decision taken in November 2023 to increase the minimum parking periods for pay and display users. This increase has been reflected in the in-year budget monitoring and also in this MTFP. Alongside this, a separate DD presented on November 26th 2024 sought approval to increase the parking tariffs. The result is that the parking income budget in 2025/26 is expected to be increased by £4.85m. The forecast on-street parking surplus will be transferred to the General Fund for use (subject to the level of surplus) in accordance with section 55(d) of the Road Traffic Regulation Act 1984 to fund:
- Off street parking provision.
  - Public transport.
  - Highways and road improvements.
  - Environment Improvements.
- 4.51 **Annex G** outlines the forecast parking surplus and the proposed use of this surplus as part of the draft Budget 2025/26.

### **Housing Revenue Account (HRA)**

- 4.52 The draft HRA budget shows a balanced budget across the MTFP, and is within the borrowing limits set as part of our Treasury Management Strategy.
- 4.53 Given the uncertainty of the wider economic climate, future investment decisions are very challenging, given these are significant, long-term investments and we need to ensure the long-term viability of the HRA. As a result, the quarterly refresh of the business plan will continue as business as usual.
- 4.54 The financial position of the HRA has declined rapidly in recent years, for several reasons including the recent economic challenges where we have seen record and sustained levels of inflation, borrowing rates, previous government policy decisions on rent setting (caps and reductions) and new additional regulatory requirements. As a new town and now a city, we grew quickly and that gives us further challenges with our stock, with similar ageing profiles and a substantial proportion of our stock being built from non-traditional construction materials, so we face several significant asset related challenges at the same time.
- 4.55 As a result, we are proposing an increase in rents of 2.7% for tenants, and 7% for shared owners, the maximum allowable under the Rent Standard. **Annex N** includes the draft HRA Budget 2025/26 and a summary of the 30-year business plan refresh.

## Dedicated Schools Grant

- 4.56 Due to the timing of the general election, the Department for Education (DfE) were not able to publish indicative schools and high needs national funding formula (NFF) allocations for 2025/26 to the usual timescale of July.
- 4.57 As part of the Autumn budget update, the Chancellor has announced that the core school budgets nationally will increase by an additional £2.3bn in the upcoming financial year compared to 2024/25, with the core schools budget totalling over £63.9bn in 2025/26. **Included** within the overall £2.3bn, is £1bn increase to the high needs budgets. In addition, the DfE anticipate that further funding, in respect of the increase in employers' National Insurance contributions, will be provided in 2025/26 by a grant outside the NFF.
- 4.58 The DfE intend to publish the provisional schools and high needs NFF allocations for 2025/26 by the end of November 2024, so at the time of writing we do not have this level of information for 2025/26.
- 4.59 The Dedicated Schools Grant (DSG) is a ring-fenced grant supporting individual schools, academies and other pupil related expenditure as defined in the School and Early Years Finance (England) Regulations 2024. The grant and expenditure are monitored closely by the Schools Forum (a committee of the Council), who also have responsibility for decision making in some areas.
- 4.60 Due to the extremely short national timescales required to make decisions around schools funding, this report requests that delegated authority is given to the Director of Children's Services (in consultation with the Cabinet Member for Children and Families and the Director of Finance and Resources) for approval of the final arrangements in respect of the school funding formula, the funding arrangements for pupils with high needs and the early years single funding formulae for 2025/26.
- 4.61 Delegated authority is required because the timescales (set by Department for Education) do not align with our budget setting timescales and because there are several areas where the Schools Forum has a decision-making role, that it will exercise at the meeting on 16 January 2025. The deadline for submitting the final schools budget allocation via the authority proforma tool (APT) to the Education and Skills Funding Agency (ESFA) is 22 January 2025 which, is before the formal ratification of our budget takes place.
- 4.62 Final funding allocations for the Schools, Central Services and High Needs blocks will not be received until late December as these will be updated reflecting the latest October pupil census data. Several other proposed changes by the DfE are currently only estimated and will not be confirmed until the final allocation is received. It is expected that there will be a pressure on the growth fund (as in previous years) and a consultation with all schools has been undertaken to consider the options to manage this shortfall.
- 4.63 As highlighted in 4.56, we do not yet have the 2025/26 high needs block allocation. However, officers are currently setting the draft high needs budget ahead of Schools Forum meeting in December however it is anticipated that

much of the additional funding allocated to MKCC will be required to meet predicted growth demand in 2025/26, without an increase in rates paid from the block. Focus continues to be on creating local commissioned places to continue to meet the needs of children presenting with more complex needs where appropriate to do so.

- 4.64 The Early Years block is based on a national funding formula and the final allocations for 2025/26 will not be confirmed until July 2026 due to being driven by specific census data. There is expected to be an increase in the funding rates, but these will not be confirmed until December.
- 4.65 The 2025/26 draft DSG budget can be found within the Schools Forum reports on the following [link](#).

### **Capital Programme**

- 4.66 Table 13 summarises the Council's capital resources and expenditure needs. The detailed Capital Programme is available at Annex H.
- 4.67 Whilst only projects with ring fenced funding have been added as part of these budget proposals, several service critical projects were approved as part of the 2024/25 Capital Programme. Many of the projects in the programme are currently reliant on future capital receipts and a prudent assumption of government grant. Capital receipts, whilst forecast using latest data, are reliant on completion of land sales, and therefore the timing is not certain. A total of £34.2m of receipts are assumed within the financing of the draft 2025/26 capital programme. To mitigate potential timing delays for cash being received, any short-term gains on investment income, achieved by current interest rates, over and above, that built into the draft budget will be used to contribute to the financing of the programme. The decision to release funding will be made by the s151 Officer once confirmation of available funding has been confirmed, in the event of delays or lower levels of receipts the addition of new projects may require further scrutiny or schemes to be delayed.
- 4.68 Whilst Table 13 shows an excess of resources over planned expenditure, all £44.343m of this funding is either Education or Integrated Transport specific, meaning there is no unallocated funding to fund any new Capital projects within the current Programme. Projects within the existing programme have been reviewed and where necessary expenditure profiles revised. Rolling programmes have been added in 2029/30 where ring-fenced funding has been identified.
- 4.69 There are a number of projects which are not currently included within the capital programme and will require funding in the future, therefore increasing the overall funding shortfall. A pipeline programme has been developed, these still either need to be worked up further or require funding before they can be considered for inclusion in the main programme.
- 4.70 The Capital Strategy approved in February 2024, sets out the approach that the Council takes in prioritising its Capital Investment Programme including financing and the way that this activity is managed across the organisation.

The expected increase to the financial pressures over the medium term on the revenue budget will mean that a key priority will be focused around schemes that deliver financial returns or reduce existing asset lifecycle costs. The Capital Strategy is currently being reviewed and will be presented to Cabinet in February 2025. This will include details of future significant investment requirements in Council infrastructure assets.

**Table 13: Forecast Medium Term Summary of Capital Resources and Expenditure**

	<b>2025/26</b> <b>£m</b>	<b>2026/27</b> <b>£m</b>	<b>2027/28</b> <b>£m</b>	<b>2028/29</b> <b>£m</b>	<b>2029/30</b> <b>£m</b>
Capital Resources	185.492	88.026	64.035	55.959	50.795
Capital Expenditure	144.512	87.614	63.300	54.640	49.898
<b>Net Position (surplus) / deficit</b>	(40.980)	(0.412)	(0.735)	(1.319)	(0.897)
<b>Cumulative Position (surplus) / deficit</b>	<b>(40.980)</b>	<b>(41.392)</b>	<b>(42.127)</b>	<b>(43.446)</b>	<b>(44.343)</b>

### **Capital Funding**

- 4.71 The capital programme is funded from various sources including Single Capital Pot Grant and other specific Government grants, capital receipts, revenue contributions and prudential borrowing. The scale of development within Milton Keynes means that the Council receives considerable sums of developer contributions which are also used in the financing the capital programme.

### **S106 Funding**

- 4.72 S106 funding is a key resource in supporting the Council to mitigate the impact of growth. The use of S106 funding must be managed carefully to address both local and strategic needs. Developer Contributions (S106) are included in the Capital Programme or to fund projects which meet the specification outlined in the S106 agreement.
- 4.73 The S106 funding received from developers is often a contribution toward total project costs. As appropriate schemes are developed through the Capital Programme processes, these resources are used towards the delivery of the full project.
- 4.74 S106 funding is closely monitored, with a greater focus on those schemes nearing their expiry date to ensure all available resource is used to deliver community facilities and infrastructure as intended.
- 4.75 The development of the capital programme has incorporated consideration of S106 funding, so resources are used in the most effective manner to address necessary schemes. This process has also included reviewing unidentified funding to ensure that this is allocated to future projects. Work is still ongoing

to identify individual schemes and future allocations will be updated as schemes are developed.

- 4.76 A total of £0.727m new S106 funding has been allocated within the Capital Programme.

### **Tariff 1 – West and Eastern Expansion Areas**

- 4.77 The Milton Keynes Tariff is a unique s106 based ‘umbrella’ arrangement covering development in the expansion areas covered by the previously designated ‘Urban Development Area’. Through the Tariff mechanism, the Council will collect over £311m in developer contributions over its lifetime, which will be re-invested in a Programme of strategic and local infrastructure covering a total of 18 ‘portfolios’, 11 of which are delivered through the Council.
- 4.78 The Capital Programme includes resourcing of various Council led projects from the Tariff. As the operator of the Tariff, the Council is also responsible for controlling expenditure across the whole Tariff mechanism. This is managed by approving Resource Allocation for future schemes as part of a medium term plan, with a spend approval stage before individual projects commence.
- 4.79 **Annex I** shows a breakdown of the Tariff resource allocation for 2025/26 and indicative allocation for the next four years, both for projects to be delivered by the Council and those managed by our partner organisations. The allocation of tariff resources was agreed in the original Tariff Delivery Plan. Changes to the timing of delivery of these projects have been made to reflect actual housing delivery and infrastructure requirements.
- 4.80 Tariff resource allocation includes both amounts to be financed through cash and others to be completed by works in kind. Tariff allocations to the Council’s projects totalling £7.593m are included within the Capital Programme. New requests for use of tariff funding will be sought on a project by project basis in line with the agreed process for entry into the Capital Programme.
- 4.81 The current long stop date of the Tariff is 2031 for the delivery programme to be completed. It is currently being negotiated for this to be extended, however no agreement has yet been signed. The Council maintains a Risk Reserve for the Tariff which is held in case there is any shortfall in contributions or scheme delivery costs exceed the level of contributions received.

### **Tariff 2**

- 4.82 The Council in February 2022 agreed a further tariff agreement (Tariff 2a) for the MK East development area in Milton Keynes. We anticipate that financial contributions will start to be received from 2025 onwards. The total tariff funding expected to be received (excluding indexation) is £180m and runs until 2049. The Council has already allocated £9.1m of this funding to part finance the social infrastructure Health Hub facility.
- 4.83 Tariff 2b relating to 3000 houses in South East Milton Keynes, is due for planning permission to be approved in 2024. This programme will run until

2044 with contributions expected to total £103m (excluding indexation). The first contributions are anticipated to be received in 2025.

## Risks

- 4.84 A key part of the draft budget is the review of key financial risks. We have reassessed the budgetary risks and where possible looked to mitigate these. It should be noted however that most of the significant risks are not within the direct control the Council and it is therefore critical in setting a robust and legal budget that we make sufficient provision within service budgets using available evidence to manage reasonable variations.
- 4.85 Our full budget risk assessment is set out at **Annex L** to the report. We have identified 44 significant budget risks as part of this assessment, which have been categorised as follows:
- Service Cost – Demand and Pricing
  - Service – Fees and Charges
  - Commercial Contract Risks
  - Critical Service Performance Failure
  - Supporting our Residents
  - Government Funding
  - Balance Sheet Risks
  - Major Events
- 4.86 The risk assessment sets out the key controls, risk level and how the Council proposes to fund the impact of each risk in the event that this should materialise.
- 4.87 Whilst demand pressures are shown as high on the risk register, allowance has been made with the MTFP for assumed future increased costs. The most significant area of risk for the MTFP, where funding is not set aside, is centred around the delivery of Waste Programme. The Councils waste services face significant changes in the near term, giving risk to material financial risks and opportunities. There is still uncertainty on a number of these issues and how this will therefore impact financially on the Council.
- 4.88 The Milton Keynes Waste Recovery Park (MKWRP) currently runs at a loss but is a critical asset for processing and recycling our waste, producing power and significantly mitigating the alternative cost of landfill.
- 4.89 We are procuring a new contract for the plant from April 2026. The losses it currently makes will be a pressure in our budget from 2026 onwards while we work with the preferred contractor to reduce costs and increase income but also develop the facility to improve its capabilities and prepare for future challenges, such as the Emissions Trading Scheme (ETS).

- 4.90 ETS is a tax on the amount of fossilised carbon in a fuel. This is applicable to the gasification elements of MKWRP which is the final treatment stage after Mechanical Treatment and Anaerobic Digestion. Whilst gasification is a much cleaner and greener technology compared to incineration plants, it is still a consideration and future pressure without intervention from 2028. We are working to mitigating this pressure, considering other new technologies such as heat capture and distribution city wide (a heat network).
- 4.91 In the Autumn Budget 2024, significant funding for Extended Producer Responsibility (EPR) was announced. The government committed to an additional £1.1 billion for local authorities in 2025/26 to support EPR initiatives. This funding aims to ensure that producers bear the financial responsibility for the waste management of their products, promoting more sustainable practices. No details were provided on how this funding would be allocated to local authorities, or what obligations would be placed on authorities, therefore no amount has been included within the draft budget. The funding level beyond 2025/26 is not clear as this will be dependent upon actual ERPA's collected by the government, behaviour changes by the sector and how government may choose to allocate funding to authorities. We will therefore review our approach for 2026/27 ahead of the 2026/27 draft budget.
- 4.92 Risk provisions have been built into both earmarked reserves and the general fund working balance to mitigate risk outside of the planned re-procurement, and provision made within the capital programme for investment in MKWRP, however no allowance has been made in the MTFP for future revenue costs.

## **Reserves**

### *General Reserves*

- 4.93 The Finance team have reviewed the level of risk reserves and GF Working Balance), which is included in **Annex J** to the report. This review shows the level of risk exposure for the Council based on the Risk Assessment at **Annex L**. This has informed our assessment of the adequacy of the level of General Fund Balance.
- 4.94 The draft risk assessment carried out alongside the development of this Budget, shows that the minimum prudent level of General Fund reserves is £32.081m. This will be reviewed again as part of the Final Budget report to reflect any material changes to the Councils risk profile.

### *Earmarked Reserves*

- 4.95 In addition to the General Fund and HRA working balances, the Council maintains a number of earmarked reserves to enable it to meet a range of different policy objectives as follows:
- to manage known financial risks;
  - to enable the Council to invest in services to generate future savings as part of its budget strategy;



- to manage one-off expenditure which has allowed the Council to make on-going revenue savings;
- to build up funding to support delivery of large projects such as capital programme schemes;
- to manage known timing differences between the receipt of funding and the profile of expenditure; and
- to hold ring fenced balances for example, specific grants, trusts, school balances etc.

4.96 The earmarked reserves are listed in **Annex K** to the report. They have been reviewed to ensure that they remain relevant, have clear objective(s) and where appropriate an expiry date has been shown as to when the funds should be fully utilised.

4.97 A summary of the planned use of reserve are shown in table 14 below.

**Table 14: Planned use of reserves**

<b>Reserve</b>	<b>Balance 1/4/24 £m</b>	<b>Forecast 31/3/25 £m</b>	<b>Forecast 31/3/26 £m</b>	<b>Forecast 31/3/27 £m</b>	<b>Forecast 31/3/28 £m</b>
GF Working Balance	(34.583)	(33.729)	(33.729)	(33.729)	(33.729)
Earmarked Reserves – non distributable	(156.707)	(143.012)	(132.928)	(133.732)	(133.639)
Earmarked reserves – distributable	(12.501)	(3.507)	(1.622)	(1.622)	(1.622)
<b>Total GF Reserves</b>	<b>(203.791)</b>	<b>(180.248)</b>	<b>(168.278)</b>	<b>(169.082)</b>	<b>(168.989)</b>
HRA Reserves	(45.577)	(19.536)	(13.501)	(13.665)	(13.832)
<b>Total Reserves</b>	<b>(249.368)</b>	<b>(199.785)</b>	<b>(181.779)</b>	<b>(182.747)</b>	<b>(182.821)</b>

4.98 Total General Fund reserves will reduce from £203.791m at the beginning of 2024/25 to £168.989m.

4.99 In balancing the 2025/26 budget, the Council has not used unearmarked reserves. The draft budget does include the planned use of earmarked reserves for non-recurrent expenditure, which is summarised in Table 9.

### **Robustness and Risks**

4.100 Section 25 (1) of the Local Government Act 2003 requires that ‘the Chief Finance Officer of the authority must report to it on the following matters:

- (a) the robustness of the estimates made for the purposes of the calculations; and

- (b) the adequacy of the proposed financial reserves.
- 4.101 Section 25 (2) requires that an authority shall have regard to the report when making decisions about the calculations in connection with which it is made (i.e. setting its budget). This element of the draft Budget report and associated annexes outlines the assessment of the adequacy of reserves and robustness of the draft Budget.
- 4.102 In preparing the Budget for 2025/26, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report. Where the impact is not known this has been highlighted as a risk.
- 4.103 The draft Budget adequately reflects known issues and assessment of the budget requirement and funding. The draft budget will continue to be reviewed before the Budget is finalised in February and revised where necessary.
- 4.104 The Council remains under significant financial pressure and in developing these draft budget proposals for 2025/26 the Council will need to make some difficult choices in some service areas to manage very significant cost pressures. In the absence of the settlement, we have had to make a number of key assumptions on funding and the governments approach to addressing the impact of National Insurance increases. There are also risks around demand and inflation which will need to be reviewed further before we finalise the budget. It is possible that further budget measures will be needed before the budget is set.
- 4.105 Looking beyond 2025/26, the Fair Funding Review and public sector reforms will be critical to how MKCC is able to manage a very challenging financial outlook. The Council will need to take further difficult decisions to address these challenges over this period, the full extent of which is not yet clear, though the impact will be significant.
- 4.106 The Council will need to continue to ensure a firm grip of spending is maintained and savings are delivered at pace.
- 4.107 It was reported when the Council set its 2024/25 budget that due to a national backlog and resourcing issues with audit firms, that the Councils Statement of Accounts had not been audited. The Councils last set of audited accounts related to the 2021/22 financial year. No audit was carried out for 2022/23 due to EY being unable to resource the work. Our new auditors, KPMG have been completing the 2023/24 audit, but due to the issues with the 2022/23 audit will have to issue a disclaimed opinion.
- 4.108 A significant amount of work has been undertaken across the Council to ensure that the budget is robust, appropriate assumptions and data used where available. This has been supported with a detailed risk assessment (**Annex L**) and in-depth review of the adequacy of the Council's level of reserves which is set out in **Annex J** to the report.
- 4.109 The General Fund Balance of £33.729m is estimated to be adequate to meet the Council's financial needs in 2025/26.

4.110 This view takes account of the reserves included in the Council’s accounts (subject to audit) as at 31 March 2024; the movement of these reserves since that date (as tracked through the Budget Monitoring process); and the proposed use of reserves as part of the draft Budget 2025/26.

**Table 15: Section 151 Officers Assessment on the Adequacy of Reserves**

Reserve	Forecast Balance at 31/3/2025 £m	Forecast Balance at 31/3/2026 £m
GF Working Balance*	33.729	33.729
% Net Revenue Budget	<b>13.18%</b>	<b>12.27%</b>
Specific Risk Reserves**	35.484	33.240
Total Reserves Available to meet known and unknown budget risks	<b>69.213</b>	<b>66.969</b>
% Net Revenue Budget**	<b>27.06%</b>	<b>24.35%</b>

\* See **Annex K** which sets out details of these reserves held to manage specific known budgetary risks.

\*\* This excludes schools budgets (DSG) and the HRA for which a separate reserve is held. It should however be noted that the Council continues to underwrite certain financial risks around schools funding, a provision for which is included within the risk assessment.

## 5. Implications of the Decision

Financial	Yes	Human rights, equalities, diversity	Yes
Legal	Yes	Policies or Council Plan	Yes
Communication	Yes	Procurement	Yes
Energy Efficiency	Yes	Workforce	Yes

### (a) Financial Implications

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

### (b) Legal Implications

The annual Budget decisions are among the most important of those which local authorities are required to make during the course of the year. This is emphasised by the fact that they are among the few decisions which the Council is not permitted by law to delegate to a Committee or to officers.

They affect every household and service user and the manner in which decisions must be made is closely prescribed by law. **Annex M** of this report sets out the relevant legal considerations which affect the Council Budget and Council Tax decisions.

Councillors should note these requirements as part of approving the Budget. Councillors will be required to give careful consideration to the information set out in the Budget Report, its annexes, and the equality impact assessments.

In addition, the Local Government Act 2003 places a specific personal duty on the Chief Financial Officer which in the case of Milton Keynes is the Director of Finance and Resources, to report to the Council on the robustness of the budget and the adequacy of reserves.

Councillors are advised that due regard has been given to the requirements of the Local Government Act 2003 during the current budget process. Specific reference is made to the adequacy of General Fund reserves, and to the robustness of the budget proposals in paragraphs 4.93 4.102.

The Budget has again been developed at a detailed level based on information supplied by Directors and their management teams and has been subject to scrutiny by the Corporate Leadership Team. Budget and Resources Scrutiny Committee have scrutinised the budget process and will be reviewing the specific budget proposals prior to Cabinet considering the final budget proposals in February 2025.

A number of the capital schemes in the Programme are necessary to fulfil the Council's legal or statutory obligations. The legal and statutory issues relating to each scheme are set out in the individual project business cases.

#### (c) Other Implications

A thorough Equality Impact Assessment (EqIA) will be conducted to identify the potential effects of the proposed pressures, reductions, and income measures on different groups within the community. This assessment will be carried out ahead of the final budget publication to ensure that any equality impacts are fully considered and addressed before decisions are made.

- Twelve proposals are significant and relevant pressures within the budget proposal primarily relate to rising service demand, inflationary cost increases, and ongoing funding requirements in key areas.
- Nine reduction and income proposals that are significant and relevant to equality, aimed at achieving cost savings and generating revenue, will also be scrutinised for their potential equalities impacts. These proposals include adjustments to service delivery, reductions in non-essential services, and increases in user fees for specific services.

The key focus of this EqIA will be to ensure that any proposed changes do not disproportionately impact residents or customers from protected characteristic groups such as age, disability, gender, race, sexual orientation, or socio-economic background.

## 6. Timetable for Implementation

- 04 December 2024 to 15 January 2025 - Budget Consultation commenced.
  - 04 February 2025 - Final Budget and Capital Programme report to Cabinet.
  - 19 February 2025 - Final Budget and Capital Programme report to Council.
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### List of Annexes

Annex A	2025/26 GF Draft Budget Summary
Annex B	2025/26 – 2028/29 Forecasting Model
Annex C	2025/26 Budget Pressures
Annex D	2025/26 One Off Budget Pressures
Annex E	2025/26 Budget Reductions and Income Proposals
Annex F	Fees and Charges: Exemptions to the Income Policy
Annex G	2025/26 Draft Parking Account
Annex H	Draft Medium Term Capital Programme
Annex I	Draft Tariff Resource Allocation
Annex J	GF Reserves Assessment
Annex K	Earmarked Reserves
Annex L	2025/26 Draft Budget Risk Register
Annex M	Legal Framework
Annex N	2025/26 Draft HRA Budget
Annex O	HRA Budget Pressures, Reductions and Technical Adjustments
Annex P	HRA Draft Capital Budget
Annex Q	HRA Prudent Minimum Balance