



# **MILTON KEYNES COUNCIL**

## **REVENUE STRATEGY**

**2009/10**

**To**

**2011/12**

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**MILTON KEYNES COUNCIL  
REVENUE STRATEGY 2009/10 to 2011/12**

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## **The Corporate Plan, Vision and Achievement of Objectives**

Our financial strategies are developed to ensure that they are consistent with, and help achieve, the Strategic Objectives agreed by the Council and the priorities that have been identified through consultation with the local community.

The Council's Vision and Values are that:

- We will deliver the best possible future for Milton Keynes by creating sustainable communities and opportunities for all.
- We will be a dynamic organisation, known for our innovative and fresh approaches
- We will act as a purposeful organisation where staff are valued and proud to be ambassadors for Milton Keynes
- We will promote the distinctiveness and diversity of Milton Keynes, tackling disadvantage by delivering high quality services that sensitively meet people's needs

The Council's Strategic Objectives 2006-2009 are:

- To ensure that our communities are sustainable
- To be inclusive and welcoming to all
- To support children and their families
- To promote health and social well-being.
- To provide high-quality services and community leadership.

The Council has consulted with local people and identified five Priorities for 2009/10 and 2010/11 that highlight the most important things we will do to achieve our strategic objectives.

1. **Public Transport:**  
to have effective and efficient routes that are affordable for all
2. **Education & skills:**  
to increase the level of education attainment for children and adults
3. **Road and pavement repairs:**  
to make it a safe and pleasant environment for the people of Milton Keynes to live and work
4. **Regeneration:**  
to improve people's life chances and narrow the gap between our poorest and most affluent communities
5. **Activities and facilities for young people:**  
to help teenagers achieve their potential and contribute into their community and enjoy their lives.

The Council's Corporate Plan is based on the same long-term vision and goals as the Sustainable Community Strategy (see below) and is updated each year. The Plan explains how services are doing, how we aim to improve in the future and how we aim to meet our Council Priorities. It also contains details of what we have discovered from consultation exercises undertaken,

including feedback from the Sustainable Community Strategy, Local Area Agreement consultation, user surveys and the Council's budget consultation.

The Corporate Plan draws upon the output of the Council's integrated service and financial planning system, which allows the Council to plan services and resources over a three year period, and to focus on the ambitions contained in the Sustainable Community Strategy and Local Area Agreements

The Council works closely with its partners to achieve the vision and deliver the action plans set out in the within the Sustainable Community Strategy (SCS) 2004-2034. The high level action plans have been designed to be refreshed every four years. This has coincided with the development of a new Local Area Agreement (LAA). All Council services contribute to achieving this vision, making progress to improve the quality of life in Milton Keynes.

### Sustainable Community Strategy

The Vision contained within the Community Strategy is "The City That Thinks Differently Embraces Evolution and Champions Change"

The SCS vision is:

"to create a city that has a soul, energy and dynamism. Our towns, villages, neighbourhoods and spaces will be desirable, fun, affordable, safe and accessible."

It will be a learning city, built and developed by a skilled and well-educated population. People will thrive financially and emotionally on the buzz of living or working in this international city of the future.

The four strategy action plans within the SCS are as follows:

- Re-inventing a city, places and spaces.
- Delivering the best services.
- Facilitating participative communities.
- Managing change together

## Introduction

The Revenue Strategy is that part of the Corporate Plan which sets out what we are going to do, how much it will cost and how we will manage to match our resources to our spending plans. It shows how we are going to use our resources to support expenditure and to deliver good value services that meet local needs.

It covers the financial years 2009/10 to 2011/12 and is driven by the Council's Corporate Plan. It should be read alongside the council's Capital Strategy. These documents inform individual service plans and our financial budget plan. Together they deliver an integrated framework for managing financial and service performance against the vision, aims and objectives of the Council and people locally.

The Revenue Strategy brings together the Council's medium term priorities and our projections of the national and local financial climate (what we expect to receive in funding from the Government and Council taxes). It also sets out our aspirations for improving performance and the activities we plan to undertake to deliver services and meet targets. We estimate how much this will cost, and develop a strategy that supports the alignment of our resources towards those priorities. To balance what we need to spend against the total funding that is available, we also calculate how much we have to save. Our value for money agenda helps to support a redistribution of resources and balance our expenditure and income. This ensures that our corporate and service plans are affordable and sustainable in the medium term.

Through doing this our strategy helps us to manage service delivery costs effectively, set challenging standards for improvements, plan for resource pressures and better respond to and understand the impact of change.

## Economic Climate

The move to three yearly settlements in Government grant gives great certainty in resources available to the Council. The income streams projected within the financial model agreed by the Council in February 2008 are, to a great extent unchanged. These were:

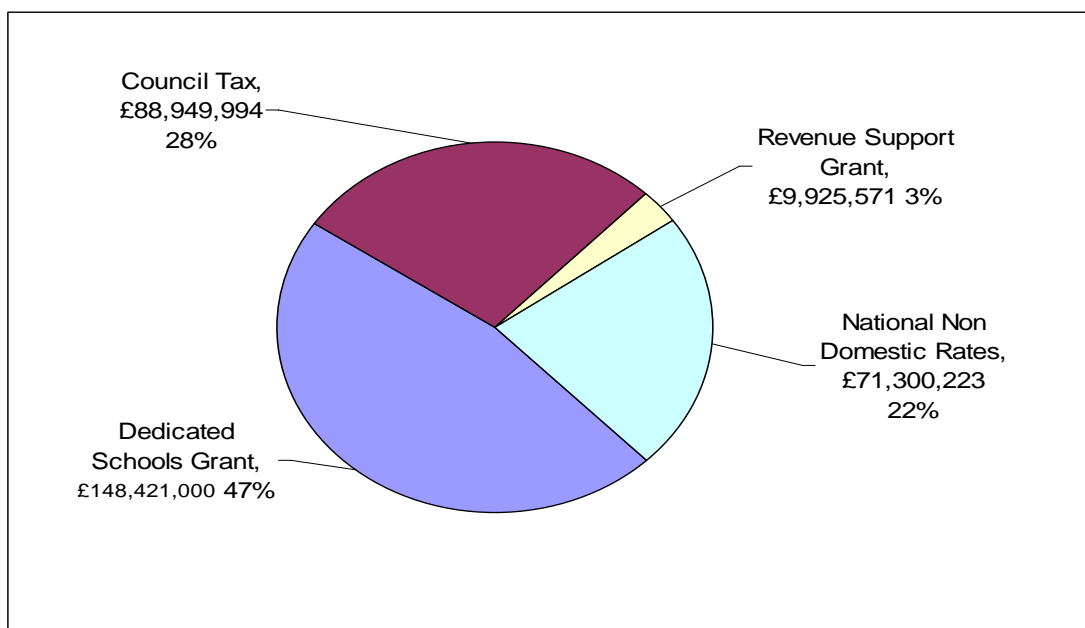
	2008/09 £	2009/10 £	2010/11 £
Dedicated Schools Grant	157,936,995	168,433,236	168,433,235
Revenue Support Grant	9,925,571	15,821,731	87,293,698
National Non Domestic Rates	71,300,222	68,547,864	
Council Tax	84,490,169	89,698,371	95,165,322
Total	323,652,957	342,501,202	350,892,255

This income stream, in effect, sets the financial parameters within which the Council has to operate. The only variables that will affect this are:

- Changes to the taxbase; and
- Changes to the level of council tax increase.

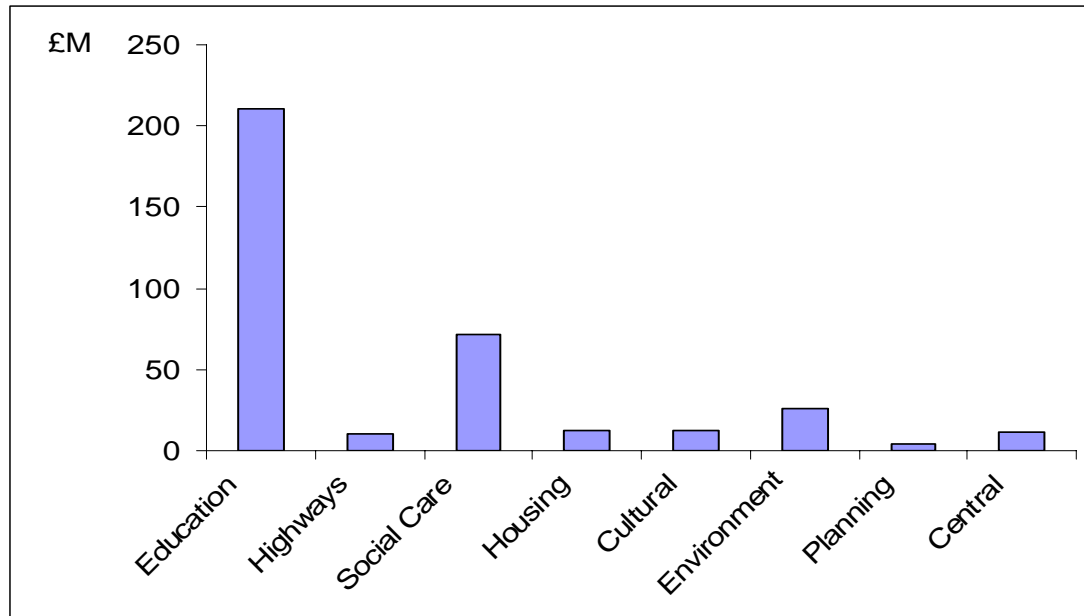
The only variable which the Council has some influence on is the Council Tax increase, although this is also constrained by the Government use of capping. For this strategy the assumption has been taken that the Government will still make use of capping and that Council Tax increases will be limited to 5% by the capping regime.

### Sources of funding 2008/09



The taxbase has been adversely affected by the downturn in the economy and will be revised as part of the 2009/10 budget setting process.

#### Where we spend our revenue budgets 2008/09



This Strategy also includes projections for 2011/12 which will be the first year affected by the Comprehensive Spending Review due to be undertaken by the Government in 2010 (known as CSR10). This review will guide the Government's funding for local authorities for the three years 2011/12, 2012/13 and 2013/14. It is difficult to predict any changes in that, particularly as it is due to be the first such exercise following a general election. For the purposes of the Strategy Government grant has been projected to increase at the same rate as in 2011/12.

As part of the Council's planning in relation to this review, the Council will revise its Strategic Objectives and Corporate priorities (see page 5 above) for the same period.

The Local Government Act 2003 requires the Chief Financial Officer to report formally on the adequacy of financial reserves as a contribution to the budget process. This includes general balances and amounts held as specific reserves and contingencies.

General fund balances are amounts set aside to cushion the impact of unexpected events and emergencies. In order to assess their adequacy, a systematic approach has been adopted. This approach is based on identification of the key financial risks following which an amount of 'potential' exposure is calculated based on the impact of the risk and the possibility of its occurrence. It should however be noted that this is not a precise science and that local circumstances, the strength of financial reporting arrangements and the Council's track record in financial management will also be a key

influence on the actual potential of any individual risk materialising. The risk assessed minimum level of balances comprises the total potential exposure liability, a contingency provision and an amount for emergency expenditure cover.

Following the assessment of the risk assessed minimum level of balances in February 2008 the Council agreed the use of non-earmarked General Fund reserves as follows:

2008/9	£1,650,000
2009/10	£750,000
2010/11	£1,000,000

This Strategy assumes that the minimum level of General Fund reserves identified as being necessary after reviewing the risks facing the Council will remain unchanged subject to a current assessment in respect of theatre equipment. This position will be reviewed in February each year. The current policy in respect of General Fund reserves is that they will be maintained within a range of £8 – 10 million.

The Council also maintains a number of Earmarked reserves which totalled £11.279 million at the end of the last financial year. This balance was made up as follows:

	<b>Balance held at 31 March 2008 £000</b>
Benefit Subsidy Reserve	38
Budget Rollovers	505
CCTV Reserve	89
Debt Financing Reserve	888
Insurance Reserve	2,176
Landfill Allowances Reserve	289
Lease Rental Equalisation Reserve	839
Planning Gains	1,065
Repairs and Renewals	333
Revenue Financing Reserve	254
SALIX Reserve	400
Saxon Court Refurbishment Reserve	70
Local Authority Business Growth Initiative	2,595
Giles Brook Reserve	174
Special Parking Reserve	550
Lloyds Court Dilapidations Reserve	300
Other Reserves	714
<b>Total</b>	<b>11,279</b>

The Council agreed in February 2008 to review these balances, as in many cases the balance shown has been held for some time. Best practice is that the balances held in reserves are reviewed on a regular basis to ensure that the balance is both appropriate and that any use of reserves is in accordance with the original purpose for which they were set up. Where balances are found to be excessive the surplus is returned to general fund balances.

The budget agreed in February set a target of £3 million being returned to the general fund over the period 2008/09 to 2010/11 and this would then be used at the rate of £1 million per year to support the revenue budget.

Since the Council agreed the budget in February 2008 the effects of the credit crunch have become known. While this is clearly a worldwide phenomenon, the effects in an area such as Milton Keynes are likely to be severe as the area has already seen growth come to a standstill in comparison with previous years.

It is likely therefore that the period covered by this strategy will be particularly turbulent and create challenges both for the area and the Council.

## Local Process

The Council has implemented a financial planning system process that mirrors the Government's CSR process. The aim of the Government's spending reviews is to set firm and fixed three year targets for Departments and define the key improvements that the public can expect through the period covered by each review. We are currently in the second year of CSR07 covering the years 2008/9, 2009/10 and 2010/11. The next review – CSR10 – will cover the years 2011/12, 2012/13 and 2013/14

The Government have encouraged local authorities to publish targets for council tax over a three year period to match the announcements of Government funding at a local level. Milton Keynes Council has recognised that the greater certainty given by the Government's announcement of grant levels for the three years covered by this strategy now offers the opportunity to take longer term financial planning decisions.

To this end and as indicated on page 9 above the Council has implemented a Single Planning Process the main features of which are:

- To mirror the Government Comprehensive Spending Review process
- To provide three year cash allocations for Council directorates
- To give greater certainty for budget managers
- To allow freedom and flexibility in use of the cash allocation and within the Finance Procedure Rules
- To provide linkages between priorities, finance, performance and partnerships
- To recognise that the process is a full year process commencing with a review of priorities and culminating in the setting of the budget in February and production of service plans in March
- To achieve greater budget manager involvement
- To make greater use made of the opportunities provided by the financial management system (SAP).

## Risks and Sensitivities

This strategy is being drafted at a time when the full effects of the economic downturn are still being identified and measured. This downturn will bring with it many challenges for the Council to face.

The budget plans identified by the Council and projects due to be undertaken during the live of this Strategy have been created with an awareness of the risks contained within the Risk Register. However, the following risks are particularly relevant to the financial position facing the Council.

- 1) That projections for growth contained within the taxbase will not be achieved. While taxbase projections will be revised during the course of the budget exercise, it is particularly difficult to predict when growth in properties will begin to pick up. Each reduction in the taxbase of 100 properties is projected to reduce projected Council tax income by approximately £110,000 in 2009/10.
- 2) That current efficiency plans contained within budget projections will not be achieved.
- 3) That projections for pay inflation are incorrect. Employee pay is the largest single element of revenue expenditure. While the projections for increases are in line with current expectations, each 1% increase in pay adds approximately £675,000 to the costs incurred by the Council.
- 4) That wider inflation may vary from that predicted both up and down. Predicting inflation in the current climate is difficult. This is somewhat mitigated by the fact that the efficiencies being introduced for procurement should reduce the overall impact of inflation on general supplies and services, the way that inflation impacts on individual contracts is more difficult to predict.
- 5) That interest rate movements will have an adverse effect on investment income and borrowing projections. The slowdown in the capital programme for building schools and infrastructure will mitigate some of the potential effects of interest rate changes.
- 6) That the triennial revaluation of the pension fund due in 2010 which will come into effect in 2011/12 will be adversely affected by the current turmoil in the financial world. This is somewhat mitigated by the fact that any increase in the deficit position facing the pension fund can be spread over 20 years.

## **Budget Management**

Financial Procedure Rules provide the framework for managing the Authority's financial affairs and ensure the efficient, effective and economic use of resources. They apply to every Member and officer of the Authority and anyone acting on its behalf.

All Members and employees have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of these resources is legal, is properly authorised, provides value for money and achieves best value.

Achievement of the budget plan is monitored through the budget management framework that seeks to ensure:

- All managers fully understand their budget and the relationship between activity and costs
- Services maximise the use of the available resources and minimise the risk of overspending
- The Council has assurance that individual service budgets and the overall Council budget are being managed effectively
- Budget problems and risks are identified at an early stage to enable corrective action to be taken.

Budget monitoring seeks to continuously identify and explain actual income and expenditure variations against established budgets. Budget monitoring is the responsibility of service managers with the support of finance staff. Financial reports are produced on a monthly basis and regular meetings held to discuss the conclusions being drawn. Budget Monitoring reports are presented to every meeting of the Council's Cabinet and Audit Committee. Significant variations are investigated and the relevant Head of Service is required to take the necessary corrective action to be taken. If necessary a report is prepared to Cabinet if either the financial position or the corrective action requires formal Council decisions. Heads of Service are also required to monitor the implementation plan for savings and advise members on any slippage or variation. Any savings not achieved have to be met by substitute savings elsewhere within the Service budget.

Where budget monitoring reveals that changes are required to budgets these are actioned in accordance with the virement procedures set out in the Finance Procedure Rules.

## Financial Principles

Our resource allocation is very heavily influenced by Government requirements and the national financial framework. A significant proportion of the services we deliver are in response to statutory and legislative requirements. We are also faced with demographic changes and inflationary cost pressures that impact on our level of funding. We therefore achieve our strategy by actively seeking ways to access additional funding, reprioritise resources and align funding with local priorities. To help us achieve this, we have developed a number of aims, which are:

**Principle 1:** To budget over a three-year period, rolled forward annually and refreshed after period 6 (April – September) each financial year.

This matches the Government CSR process and allows the Council to meet the requirement to issue indicative council tax levels covering the three year planning environment.

**Principle 2:** To maximise Government Grant.

This is part of the overall aim of maximising resources available to the Council to provide local services. However, this goes further in that it also recognises that the case should be made to Government where centrally provided funding streams do not match service requirements.

**Principle 3:** To maximise fees and charges to the maximum that the market will bear, subject to appropriate concessions having been agreed in line with the overall aims and objectives agreed by the Council.

This is part of the overall aim of maximising resources available to the Council to provide local services. However, it also recognises that this must be achieved while recognising both local market conditions but also meeting the overall Council aim of social inclusion. Any fees and charges regime must make allowance for those disadvantaged whether through economic or other circumstances.

**Principle 4:** Not to increase council tax by more than the percentage (%) uprating of pensions and other welfare benefits implemented by the government in September each year.

The Council recognises that many within our community face limitations on their income which means that decisions we make can cause financial hardship. This principle means that those on pensions and state benefits will not be faced with a situation where the rate of increase in their income is exceeded by the rate of increase in the Council tax that they face.

**Principle 5:** To promote value for money, investment to save and other efficiencies.

This is a continuation of the Council's ongoing search for making the best use of the resources available to it. It is the mirror image of Principles 2 and 3, in that, while they seek to maximise income, this Principle seeks to minimise waste.

**Principle 6:** To achieve proactive cash management backed by rigorous financial and establishment controls

The Council will follow best practice in the way that cash is handled.

To achieve these Principles various changes to the way that the Council operates will need to be made. As these are identified they will be evaluated and reported to Members. However, an early change to previous practices is the amalgamation of individual project budgets. In previous exercises these have been held within departments. This year the Council has revived the Changing MK initiative to monitor corporate initiatives and value for money and established a Portfolio Office to administer projects. The budgets associated with such projects will be combined under the Portfolio Office.

## Financial Model

The method used to update the budget is shown below. This sets out the process and, in particular, how the budget takes into account the corporate priorities.

- 1 Base Budget
- 2 Plus:
  - Pay inflation
  - Energy & Fuel Inflation
  - General inflation
  - Unavoidable Growth
  - Previously agreed commitments
  - Fees & Charges increase
- 3 Add:
  - Changes in assumed level of Reserves following risk analysis
  - Changes in Council Tax Planning Assumption
- 4 **REVISED BASELINE BUDGET (1 + 2 + 3)**
- 5 **REPORT (SHORTFALL)/SURPLUS (1 – 4)**
- 6 Consider new commitments in light of Council Priorities
  - A
  - B
  - C
  - D
  - E
- 7 Funding the Strategy
  - Agree Savings to accommodate new commitments
  - Reduce or phase in new commitments
  - Consider level of Council Tax increase
- 8 **BUDGET TO CABINET IN DECEMBER (4 + 6 – 7)**

## **FUTURE ALLOCATION OF RESOURCES**

### **New initiatives in 2009/10**

The financial position facing the Council will, by its very nature, not remain static and will need to evolve to enable the Council to best serve the Milton Keynes community. During the life of this strategy there are three initiatives that will be developed that aim to address potential weaknesses in the way that resources have been traditionally allocated. These are:

- the allocation to specific service areas throughout the budget of £1 million to support the five priorities identified on page 5 above
- Targeted support for parishes with high deprivation for which an annual fund of £200,000 has been established to address that deprivation; and
- An annual fund of £102,000 (effectively £2,000 per councillor) for initiatives identified by councillors for implementation in their wards;

### **Changes in Government funding mechanisms**

An additional area that needs to be addressed is the challenge faced by the Council because of the way in which the Government is moving away from ring fenced grant funding towards a general allocation of centrally provided funding streams. The developing Area Based Grant regime will need to be regarded in the way that service planning used to be for those services previously funded by ring-fenced grants. Such grants are now incorporated within the Area Based Grant which may have implications for local matched funding.

This change is in part recognition of the changing public sector environment. The move to Local Area Agreements (LAAs) represents a radical new approach to the way local authorities and their partners can use government funding to support the implementation of national and local priorities in local areas. LAAs are 3 year agreements decided between government, the local authority and its partners in an area (working through the Local Strategic Partnership) to improve public services. The agreements are refreshed annually.

The inspection regime is also moving to match this change, with Comprehensive Area Assessments (CAA) being introduced from April 2009. CAA is the successor to Comprehensive Performance Assessments (which focussed on the Council) and will provide the first independent assessment of the prospects for local areas and the quality of life for people living there. It will assess and report how well public money is spent and will ensure that local public bodies are accountable for their quality and impact.

Milton Keynes Council is committed to make the LAA a success. Ultimately, the Council's aspiration is to create a Multi-Area Agreement (MAA) in respect of economic development and transport , which would recognise the influence of Milton Keynes across the surrounding region. This would clearly be challenging, as it involves cross boundary working. The Local Government White Paper published in October 2006 recognised the value of MAAs to city regions. To date only seven MAAs have been established across the entire country.

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