Annex T

Medium Term Financial Plan

February 2022

milton keynes council

Contents

1. Purpose

1.1 This plan This plan sets out how the Council will address its financial challenges, prioritise the resources it has and support the delivery of the Council Plan. This is the fourth consecutive year where local government has received an annual financial settlement from government. Taken together with the impact of the pandemic and challenging economic backdrop caused by supply chain issues, rising inflation and changes to the workforce, this means financial planning is short term and certain to change materially over the next 4 years.

1.2 The Council has continued to respond effectively to the challenges presented by the pandemic both in terms of making critical service decisions and strengthening its financial and risk management approach. As the wider financial impacts to the economy, place, residents and workforce emerge the Council will need to continue to evolve and respond to the rapid changes taking place to ensure that the Council continues to provide support and leadership whilst remaining financially resilient.

1.3 This plan sets out the key financial planning assumptions, considers the key financial risks and provides the framework from which the Council will deliver the Council Plan on a financially sustainable basis.

Ambition for Milton Keynes

1.4 Milton Keynes has a successful economy and is a successful place:

Milton Keynes is one of the UK's fastest growing economies, both in terms of employment and output. The Gross Domestic Product (GDP) for the city in 2018 was £15.69bn, with a GDP of £84,784 per worker – one of the highest in the country outside of London.

The most recent UK Powerhouse report produced by Irwin Mitchell (November 2021) found that, for Q4 2021, Milton Keynes had the second highest level of economic growth and featured within the top 5 for employment growth when compared with other significant towns and cities within the UK. The report also estimated that Milton Keynes will remain in the top 5 cities for economic growth in Q4 2022 (alongside Oxford, Cambridge, and Reading).

The latest Centre for Cities City Outlook publication (2021) on the UK's 63 largest towns and cities reported that Milton Keynes had the:

4th highest GDP per worker

2nd highest business stock per 10,000 population

6th highest start-up rate per 10,000 population

In 2019 (the latest available data), there were 204,000 jobs in Milton Keynes. This equates to a job density of 1.21, meaning there are more jobs in the MK economy than working age residents. In terms of sectors, there is a lot of diversity. By employee jobs, Wholesale and Retail is still the largest sector

(29,000 or 16.6%) of all jobs) followed by Education (19,000 or 10.9%) administrative and support services (16,000, 9.1%).

The Claimant Count stood at 4.7% (7,895 individuals) in November 2021. The Unemployment Rate in Milton Keynes is higher than the national (UK) rate of 4.6% and the South East Midlands (SEMLEP) rate of 4.4%.

1.5 It should also be recognised however, that Milton Keynes also has areas of deprivation. The latest English Indices of Deprivation data (2019) ranked Milton Keynes the 172nd most deprived Local Authority (out of 317), 8 out of 152 of its local areas feature within the top 10% most deprived areas in the country. The MK Child Poverty commission reported that 22,940 children in Milton Keynes are living in poverty after Housing Costs.

1.6 In July 2016, the MK Futures 2050 Commission published their report "Making a Great City Greater" which was endorsed by full Council and proposed a programme to deliver continued growth and economic success for Milton Keynes. The Commission identified the need for a new long-term strategy to guide the next phase of the development of Milton Keynes. The Milton Keynes Strategy for 2050 was consequently developed through detailed evidence studies and extensive public and stakeholder engagement that included a draft strategy published for comment in January 2020 for 18-weeks and a subsequent 5-week long review of the impacts of COVID-19. It was agreed by Cabinet on 15 December 2020 and then by Council on 20 January 2021.

1.7 The Strategy sets out a long-term approach to spatial development. It aims for a steady population increase to around 410,000 people in the borough by 2050 as the best means of achieving Seven Big Ambitions:

- strengthen those qualities that make Milton Keynes special;
- make Milton Keynes a leading green and cultural city – by global standards;
- ensure everyone has their own decent home to rent or buy;
- build safe communities that support health and wellbeing;
- provide jobs for everyone by supporting our businesses, and attracting new ones;
- offer better opportunities for everyone to learn and develop their skills; and
- make it easier for everyone to travel on foot, by bike and with better public transport.

1.8 The Strategy includes a commitment to provide essential infrastructure and services, including a Mass Rapid Transit System. It also commits to keep and strengthen those things that make Milton Keynes special – green spaces and trees, being able to move around easily using grid roads and redways, a vibrant economy and diverse communities and a strong community spirit. It includes proposals to help achieve the council's ambition to be carbon neutral by 2030 and to support the mental and physical health of the community.

1.9 The Strategy for 2050 has been prepared to provide ambition and focus at a time of great uncertainty but to be flexible to adapt to changing circumstances. The delivery programme will explore the potential of new forms of delivery vehicles and seek new partnerships, including with government and Homes England, that will help secure the investment in public services and infrastructure necessary to secure high quality growth.

1.10 We have produced a Council Plan, which sets out the vision, values and objectives for the Council. The revised Council Plan 2016 -22 was adopted at Council on 16 June 2021.

1.11 The delivery of this Council Plan will determine the financial choices we need to make over the medium term. However, the overall financial position is very challenging; the choices we will need to make will be very difficult.

1.12 The Labour Group and Liberal Democrat Group formed a Progressive Alliance in May 2021. The revised Council Plan 2016 - 22 is based on the joint key priorities and deliverable policies agreed by the Progressive Alliance as a majority administration of Milton Keynes Council.

1.13 Given the nature of the Council Plan, some of the work involves identifying solutions and programmes which will address key priorities and therefore further resource implications are still to be identified.

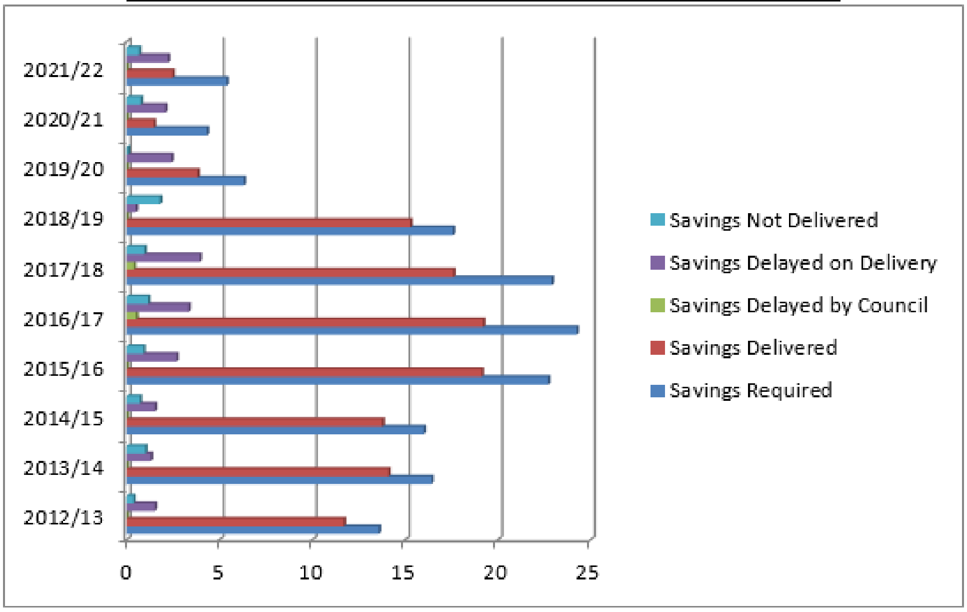
2. Financial Delivery

2.1 Our Budget and Medium Term Financial Planning is based on 12 core principles, which have and continue to be endorsed by the Cabinet:

- Emerging pressures are managed, where possible within existing budgets.
- Spending is aligned to key priorities as set out in the Council Plan.
- Income is only included in the budget where supported by robust proposals and is deliverable.
- Future liabilities are anticipated.
- Budgets are sustainable.
- Base Budget / one-off expenditure/ capital expenditure are distinguished.
- Savings proposals are supported by implementation plans and the impact on service delivery is clear.
- The allocation of capital resources is separate from expenditure approval.
- Capital and revenue planning needs to be integrated to ensure implications are fully anticipated.
- The use of specific grant funding does not lead to revenue budget pressures.
- The Council’s reserves (and other one-off resources) are not to be used as a primary method to balance the ongoing pressures in the budget.
- Earmarked reserves are used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.

2.2 We have a good track record of savings delivery. Sometimes councillors choose to delay the implementation of a budget reduction as part of the Budget decision, and on occasion the delivery of savings is more complex than anticipated which impacts on the rate of delivery or the ability to deliver a budget proposal overall. The Chart below sets out our performance in delivering budget reductions and income since the period of substantial cost reductions began. The delivery of savings is closely monitored throughout the year.

Chart 1: Financial Outturn and Delivery of Savings



2.3 The next section summarises the key cost pressures that we have reflected in the MTFP in 2022/23, rationale and been reflected in subsequent years of the plan. It is fully recognised that these assumptions will need to be kept under regular review throughout 2022/23 to ensure that any necessary action is taken to manage any material variations to this plan.

3. Cost Increases

3.1 We have identified a number of service pressures which will increase the cost of delivering services by more than £32m over the next four years. The main increases are set out below:

Demography and Demand

3.2 Milton Keynes' population of under-19s is set to grow by approximately 0.3% per year. This is equivalent to 241 children each year and will impact on a number of services including the number of school and early years places required to be available, demands on other children's services and it will result in additional children needing safeguarding and those with special education needs where the number of children with an education and health care plan (EHCP) has increased by 22% in the last year. Over the medium term this is estimated to cost an additional £2.0m in order to fund the costs of placements, social worker support for increased caseloads and legal fees associated with the overall level of interaction with children's social care and SEN. This increase in budget also reflects the increasing complexity of young people requiring support.

3.3 The increased complexity of need of young people is also reflected in the home to school transport budget where an additional cost of £0.3m has been included in the MTFP to allow for the changes in the complexity of needs of children eligible for travel together with an increase in the number of young people requiring travel (as a result of an increase in the number of children with an EHCP).

3.4 The number of over 65's in Milton Keynes (14%) is slightly lower than the national average (17%). However, the amount of care required per service user is increasing to meet the level of need of an ageing population. The additional number requiring care provided by the Council between 2022 and 2026 is estimated to increase by 3% per year. This assumes growth will settle to pre-pandemic levels.

3.5 Over the medium term it is estimated that we will need to look after 91 more people with learning disability needs, costing £4.464m and an additional 68 people with Mental Health or Autism needs, costing £2.114m.

3.6 Our positive approach to housing growth leads to the delivery of approximately 2,000 additional homes a year, 8,000 over the next four years. The additional cost of collecting and disposing of waste from these houses is estimated at £1.577m.

3.7 The Council has invested significantly in recent years to provide accommodation to meet the growing demand of homeless people and families, which is in part driven by increasing house prices and the cost of rent in private sector homes, impacting affordability, which contributes to more people having a statutory requirement for rehousing. We will enter year two of the Invest to Save Programme in 2022/23 (as set out in the Homeless Prevention & Access Business Case) to transform the care and support through a combination of:

- Intervention to prevent evictions and homelessness
- Supporting those in temporary accommodation to move on to assured short term or flexible tenancy in their own home.

3.8 The plan aims to reduce the number of households in temporary accommodation from 1,150 to 690 and in the process provide real homes, delivering better quality and realising a return on the investment by saving over £3.5m over five years.

Legislative Pressures

3.9 The Government introduced a National Living Wage (NLW) from April 2016. The minimum pay from April 2022 for over 23’s is £9.50 per hour (ph), an increase of 6.6% from the existing rate. While the Council pays its staff above this level, we are aware that a number of contractors will need to increase pay rates over the MTFP, the biggest pressure being within our care market. As part of the commitment to the Ethical Care Charter, some providers are subject to pay workers in line with the Foundation Living Wage, recognising that National Living Wage is still a minimal rate. While we would not expect to meet the whole cost of this change, we estimate there will be a £11m additional cost for the Council over the MTFP.

Inflation

3.10 A combination of factors has led to a sharp rise in inflation in the second half of 2021. The latest CPI rate is 5.4% (December 2021), far above the Government’s 2% target. The Bank of England has predicted that the CPI rate will increase to 6% by Spring 2022 but then should start to fall. Some inflationary factors such as the impact of Covid-19 on the economy are expected to reduce but there is a risk that others will continue to rise i.e. energy (oil and gas) prices.

3.11 High inflation poses a significant risk for the Council on our whole cost base (contracts, energy and staffing). The MTFP assumes higher inflation in 2022/23 only and then assumes inflation falls back to previous levels thereafter. £6.6m contractual inflation has been factored into the 2022/23 budget and £20.7m over the medium term. We have increased the budget contingency since the draft budget was produced to provide an additional risk buffer in part to manage concerns over the current trajectory of inflation.

3.12 In the October Spending Review the Chancellor announced an end to the public sector pay freeze. A pay award provision of £2.0m has been included in the 2022/23 budget with a further 2% per annum over the medium term. In addition a further 1.75% pay award has been included in the 2022/23 base budget for the estimated 2021/22 pay award. Overall, pay award provision amounts to £9.6m over the period of the MTFP.

4. Total Additional Costs

4.1 In total, we are expecting the additional ongoing costs for services to be as follows:

Table 1: Total Pressures 2022/23 – 2025/26

Budget Pressures by Category	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Demography	5.400	4.151	2.855	2.775
Demand - New	1.330	0.307	0.000	0.000
Policy Choice	0.050	0.000	0.000	0.000
Contractual Change	0.271	1.750	0.000	0.000
Total Ongoing Service Pressures	**7.051**	**6.208**	**2.855**	**2.775**
Total One-off Budget Pressures (See Annex E)	3.026	1.645	0.822	0.000

4.2 The costs set out in this table increase the base budget each year. So, by 2025/26 we estimate that we will be spending £19m more every year on demographic and demand led pressures. In addition to these base budget pressures we have also provided funding for £3.0m one-off pressures in 2022/23. (**Annex E**).

5. General Fund Resources – Ongoing

5.1 The October Comprehensive Spending Review gave a high level indication of public sector spending for the next three years. However, the December provisional Local Government Finance Settlement (LGFS) only confirmed a one year settlement so there is little clarity on the longer future of government funding.

5.2 The provisional LGFS made reference to a review of future funding distributions but gave no detail. It is not known if this review will take the form of the existing Fair Funding Review or what changes to the Business Rates Retention scheme will be implemented.

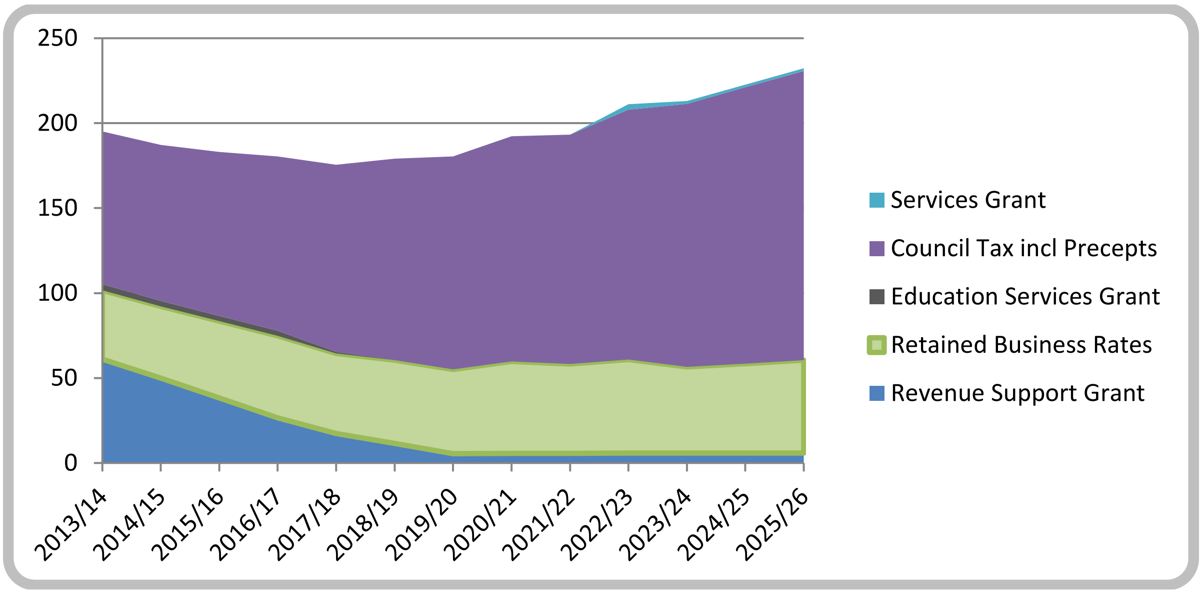
Funding

5.3 We currently have three main sources of funding:

- Council Tax
- Retained Business Rates
- Revenue Support Grant

5.4 The chart below shows how our overall funding has changed since 2013/14 and our best view of how we are projecting this to change by 2025/26. The clear shift is from national funding to locally generated income.

Chart 2: Council Funding from 2013/14 and projected funding to 2025/26



6. Council Tax

6.1 There are three factors which raise additional Council Tax in Milton Keynes. These are:

- An increase in the number of houses paying Council Tax, as we continue to grow. Further details can be found in the Council Tax Base report which went to 2 November Cabinet.

- A local choice about increasing Council Tax. Since 2012/13 there has been a maximum increase allowed before a referendum will need to be held with a public vote in favour for the Council to approve a higher increase. The provisional LGFS set the Council Tax referendum principles for 2022/23 at a maximum increase of 1.99%.

- The 2022/23 provisional LGFS also allows a 1% Social Care precept. The Council has included a 1.76% Social Care precept in its 2022/23 Budget. In 2021/22 Councils were allowed to raise a 3% Social Care precept and if not fully used could carry over the remainder to 2022/23. In 2021/22 we used 0.51% of the available 3%. We are now using a further 1.76% of the 2021/22 allowance in 2022/23. We are therefore not using the additional 1% allowed for in the 2022/23 provisional Settlement for 2022/23 but we have assumed a 1% increase from 2023/24 onwards in the MTFP.

6.2 The table below shows the key assumptions and the forecast Council Tax income incorporated into the financial projections. As noted above, it is important to remember that while additional housing increases income, this also places demands on our services.

Table 2: Council Tax Assumptions

	2022/23	2023/24	2024/25	2025/26
Increase in Council Tax Base (Band D equivalents)	4,200	2,100	1,900	1,500
Increase in Council Tax charge	1.99%	1.99%	1.99%	1.99%
Increase in Adult Social Care charge for Adult Social Care precept	1.76%	1.00%	1.00%	1.00%
Estimated Collection rate	98.4%	98.4%	98.4%	98.4%

6.3 These assumptions result in the following increases in Council Tax:

Table 3: Council Tax Increases

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Increase in Council Tax Base	(6.083)	(3.148)	(2.929)	(2.458)
Increase in Council Tax charge	(4.967	(4.202)	(4.416)	(4.621)
Total Additional Income*	(11.050)	(7.350)	(7.345)	(7.079)

*excludes estimated parish precept increase

6.4 The Council Tax Collection Fund is monitored closely throughout the financial year. As a consequence of the bounce back from COVID-19 we are currently forecasting a surplus on the Council Tax Collection Fund. The Council's share is expected to be £7.9m. This is being used to support the MTFP.

6.5 The surplus or deficit is shared between the major preceptors, Milton Keynes Council, Buckinghamshire and Milton Keynes Fire Authority and the Police and Crime Commissioner for Thames Valley.

7. Retained Business Rates

7.1 Under the retention system central Government retain 50% of the Business Rates collected, the remaining 50% are held locally. The local element is known as retained business rates, of which, 1% is paid to Buckinghamshire and Milton Keynes Fire Authority.

7.2 The Council's retained 49% is then subject to a Tariff and also a Levy which is applied to "disproportionate growth". These amounts are paid to central Government. The Tariff funds other authorities where their needs are higher than the Business Rate income they would have retained, while the Levy funds the national Safety Net which provides authorities with protection against a reduction in Business Rates funding compared to their Baseline Funding Level of 7.5%.

7.3 The level of Tariff and Levy means that in Milton Keynes we only retain £0.30p in every £1 of business rates collected and therefore only £0.30p in every £1 of business rates growth also. Normally we collect around £150m - £160m in Business Rates locally, of which around £50m is retained by Milton Keynes Council. As a consequence of COVID-19 the government gave businesses within the retail, hospitality and leisure 100% rates relief in 2020/21 and this support has continued into 2021/22, albeit at a lower percentage rate. This reduces the amount of business rates we collect, but we are fully reimbursed for this through S31 grant.

7.4 The Business Rates Retention Scheme has now been in operation since 2013/14. During this time, we have experienced a number of issues which highlight the risks in this funding regime which has increased with the recent epidemic. The major risks are as follows:

- There have been issues with delays to new properties being entered onto the Valuation List; this has impacted on the timing of receipts. We have known properties to be delayed for up to six months, due to capacity issues and technical valuation issues in the Valuation Office, but this is down from up to two years previously. Unfortunately, these delays still make income forecasts unpredictable.

- Successful appeals for business rates reductions by ratepayers have caused a major uncertainty in the system nationally; this is particularly evident in Milton Keynes due to the nature of our ratepayers. We currently have 57 appeals outstanding relating to the 2010 list and current information indicates the majority of these will be resolved by the Valuation Office by 31 March 2022. Again, this makes it difficult to determine income levels in year and the underlying baseline level of income, as appeals are often backdated for several years.

- There have also been a number of appeals addressed on both the 2010 and 2017 lists at a national level, where a ruling is given which impacts on our local income potentially without us being aware that the case is being considered. We work closely with the Valuation Office to understand where these risks may apply.

- A national revaluation is scheduled for 1 April 2023 which will result in the closing of the 2017 list, historically there has been a surge in appeals lodged immediately prior to the closing of a current valuation list and this is expected to re occur during 2022/23.

- Since April 2020 there were a significant number of challenges to business rates raised by businesses as a direct result of COVID-19 with changes to work practises or having to close due to COVID measures. Legislation passed in December 2021 has resulted in these being dismissed as an alternative rate relief is to be provided to those businesses. The impact of this change in legislation on the appeal forecast will be kept under review in the next 12 months.

- Over the last four years, the economy in Milton Keynes has continued to grow, but there is a risk that if the economy started to decline income would fall. The Safety Net operates to protect against losses of more than 7.5% from the Business Rates Baseline. If income reduced the Councils potential financial exposure is £11m in a single year, based on £7m growth which has been baselined and £4m which is the maximum reduction that can happen before the Safety Net would apply. The actual losses in business rates income would need to be higher than this as these amounts are net of any Levy payment to the government.

- The Business Rates system was due to be reset in 2022/23 but has been delayed again until at least 2023/24. A reset means in theory all growth and losses will be reset nationally and locally in the system. In reality this is likely to be based on historical information and due to the dynamic nature of the tax cannot be accurate. To mitigate the potential impact of this risk the MTFP reverses out £6.4m in growth from 2023/24 from the base budget.

- Within the GF working balance we have provided additional financial provision in the event that the Councils base shrinks further as a result of other factors including changes to valuations yet to be considered by the Valuation Tribunal in excess of the provision we have made.

8. Revenue Support Grant

8.1 Local authorities Settlement Funding Assessments for 2022/23 were confirmed in the provisional LGFS. This is made up of Revenue Support Grant (RSG) and Business Rates Baseline Funding Level (BFL). For 2021/22 RSG has been uplifted by 3.2% (September CPI) to £5.801m and BFL remains at £46.471m in line with the freezing of the business rates multiplier.

9. Other Resources

9.1 There are a number of other grant funding streams which are critical to the operation of the Council, these are:

Public Health Grant

9.2 The Health and Social Care Act 2012 transferred substantial health improvement duties from the NHS to local authorities from April 2013. Local authorities have been given a ring-fenced Public Health grant to discharge their responsibilities to:

- Improve significantly the health and wellbeing of local populations.
- Carry out health protection functions delegated from the Secretary of State.
- Reduce health inequalities across the life course, including within hard to reach groups.
- Ensure the provision of population healthcare advice.

9.3 Public Health England implemented a year-on-year reduction in Public Health Grant funding until 2020/21, where we then received an increase of 4.7%. Changes in population have not been reflected in the public health funding the Council receives. The provisional LGFS did not provide the detailed allocation information but did reference that it would be increased in line with inflation. We have therefore assumed an increase of 3.1% in line with September CPI. This assumed increase will support existing services (including Children's Centres). The Public Health reserve has largely been committed, therefore receiving a lower increase, could result in increased pressures in the general fund.

9.4 **Better Care Fund**

9.5 The Better Care Fund (BCF) is pooled funding between the NHS and local authorities and has been in place since 2015/16 to support the delivery of integrated health services and to also support local authorities in implementing the 'Care Act 2014'.

9.6 The pooled Budget has a legal basis under Section 75 of the NHS Act 2006. A condition of this funding is that local authorities must agree with local health partners how the funding should be utilised and the expected outcomes. These spending plans must include detail on how Adult Social Care services will be protected. The total minimum CCG contribution to the BCF pool was £17.593m of which £5.839m was agreed as protection for Adult Social Care. Planning guidance for 2022/23 has not yet been issued so for it has been assumed there will be no increase to the funding allocations.

improved Better Care Fund

9.7 The improved Better Care Fund (iBCF) was first introduced in the 2015 Spending Review. In 2021/22, the Winter Pressure funding was merged with the iBCF to form a total allocation of the iBCF grant for 2020/21 of £5.995m. The provisional LGFS confirmed that the funding allocation will be uplifted by 3.1% inflation in 2022/23 in line with September CPI and this remains ring-fenced.

9.8 The iBCF grant may only be used for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when ready and ensuring that the local social care provider market is supported. The local spending plan for Milton Keynes for 2021/22 was agreed with the Clinical Commissioning Group (CCG) in Milton Keynes and approved nationally as part of the overall BCF plan.

New Homes Bonus

9.9 The New Homes Bonus (NHB) is funding allocated to councils based on the building of new homes and bringing empty homes back into use. The intention for the NHB was to ensure that the economic benefits of growth are returned to the local authorities and communities where growth takes place.

9.10 As part of the 2017/18 LGFS, the total amount available for the NHB was reduced by two-thirds, with funding re-directed to the Better Care Fund. The period over which the NHB would be paid was also reduced from 6 years to 5 years in 2017/18 and to 4 years from 2018/19 and a national baseline for housing growth of 0.4% was introduced.

9.11 No further formula changes have been made but it was confirmed that only existing legacy payments would be paid going forward. The last of these is to be paid in 2022/23. The 2022/23 provisional LGFS confirmed the NHB allocation for

2022/23 as £4.459m made up of the £1.970m legacy payment and a new £2.489m allocation for 2022/23. The NHB reduces to zero by 2023/24 and this is reflected in the MTFP.

9.12 The future of the NHB is very uncertain but no further details were provided in the provisional LGFS.

Dedicated Schools Grant

Overview

9.13 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 2022. The grant and expenditure is monitored closely by the Schools Forum (a committee of the Council) and the funding and expenditure are ring-fenced within the individual blocks. The full budget summary was taken to the Schools' Forum meeting 13/01/2022 and a summary of the position is outlined in table 4.

9.14 Final funding allocations were received week commencing 13 December, however some elements of the DSG are still subject to future revisions (namely the whole of the early years block and the import and export adjustments on the high needs block), both of which are confirmed in July 2022.

Table 4: Dedicated Schools Grant

DSG Allocation	Schools £m	Central Schools Services £m	High Needs £m	Early Years £m	Total £m
2021/22 DSG Grant Allocation	219.636	1.654	48.866	21.904	**292.060**
2022/23 DSG Grant Allocation	230.982	1.748	52.602	20.791	**306.123**
Changes from 2021/22	**11.346**	**0.094**	**3.736**	**-1.113**	**14.063**
2021/22 Forecast Carry Forward	0.289	0.002	2.157	0.352	**2.800**
Total Resource 2022/23	**231.271**	**1.75**	**54.759**	**21.143**	**308.923**

9.15 2022/23 will be the fifth year of the national funding formula (NFF) which covers not only how the funding allocation is calculated, but also the distribution of funding out to schools via the school funding formula. Whilst LAs will have local input into the formula in 2022/23, it is expected that this will match the formula proposed by the DfE to aid transition to a hard introduction of the formula at which point it is expected that local involvement will cease. There is no confirmed date for the hard formula introduction.

9.16 The transfer to a hard formula allocation of funding to schools is not likely to affect MK significantly as subject to managing local demographic pressures our formula is already in line with that of the DfE.

9.17 The forecast carry forward against the schools block will be allocated as part of the school funding formula distribution for 2022/23. The forecast carry forwards against both the early years and high needs blocks are one-off underspends and are held to manage volatility as all expenditure can vary during the year based on the number of and needs of the children. The DfE have also issued revised guidance on the requirement for each of the individual blocks to remain in surplus and in the case of any deficits detailed recovery plans must be submitted to the DfE.

Changes from 2021/22

9.18 Additional funding nationally for schools was announced by the Government in September. The impact of these changes to the MK DSG are:

- Additional funding of £116.79 and £148.43 per pupil in primary and secondary respectively. The total increase in NFF factors is £5.7m.
- Supplementary grant funding of £6.7m for schools and £2.0 for high needs to recognise the additional costs pressures including the Health and Social Care Levy.
- Increase in growth funding of £0.5m, growth funding remains a pressure for MK.
- Additional high needs DSG funding of £3.7m in addition to a supplementary grant.
- Reduction in early years funding of £1.1m due to take up.
- No school will lose funding and all will see a minimum increase of 0.5% when comparing their per pupil funding.

9.19 Additional funding for schools and high needs was also announced nationally for 2023/24 and 2024/25 of £4.7bn although the distribution methods are not yet confirmed.

9.20 Authorities can still move up to 0.5% between blocks with approval by the schools forum but the DfE expects the number of LAs who do this to significantly reduce given the increase in funding to high needs. MK will not be proposing any block transfers.

School Budget

9.21 Although the DfE outline their expected formula for allocation of funding to schools, there are often occasions where this cannot be matched exactly and remain within the overall funding allocation. The reasons for this are:

- We only receive an average amount of funding per pupil. It may be that in some cases the actual cost per pupil via the formula may be higher due to the specific demographic characteristics.
- Funding is still lagged meaning that some increases in areas such as premises factors, cost more than the amount of money allocated.
- Authorities that are growing are likely to need to top slice the cost of this from within the schools block. Again, the nature of growth funding is lagged and is only received at a per pupil amount of funding which does not cover the cost of growth. This is especially an issue in MK where we are experiencing rapid growth.

9.22 The shortfall in meeting the NFF is £1.3m (0.6% of the schools block allocation). During November we consulted with all schools on the changes that could be considered to manage within the overall funding envelope. These results have been analysed and together with a discussion at the December schools forum meeting, have been considered as part of the setting the 2022/23 formula.

9.23 To manage the residual pressure on the funding formula, we are going to reduce the AWPU (average weighted pupil unit) by 1.0% across all sectors.

High Needs Expenditure

9.24 High needs expenditure largely consists of commissioned place funding, top up funding and central special education support services. It is allocated to a number of different types of settings in line with the DfE funding regulations.

9.25 A full review of the high needs budget for 2022/23 has taken place to reflect increases in demand, inflation and other cost pressures. There have been a number of significant cost pressures resulting from increased demand in the current year and these have been reflected in the base budget for 2022/23 using the majority of the additional funding that was announced. Future funding beyond 2022/23 remains uncertain, with future allocation unknown and the impact of any changes made the High Needs National Funding Formula (NFF) and the SEND review still to be seen. To recognise the increasing costs that schools are facing a rate increase of 3% has been built into the 2022/23 budget. The table below summarises the change in budgets as a result of both demand and formula cost increases:

Table 5: High Needs Budget

High Needs Budget	2021/22 Budget	2022/23 Budget	Increase / Decrease
	£'m	£m	£m
Special School Place and Top Up	23.856	26.477	2.621
Departments / Special Units	2.237	2.389	0.152
Alternative Provision Funding	3.156	3.257	0.101
Mainstream Top Up Funding	6.428	7.306	0.878
College Place and Top Up	2.827	3.701	0.876
Independent Special Schools Fees	5.920	7.165	1.245
Demand Risk Reserve	1.447	0.923	(0.524)
Central Services	2.995	3.359	0.364
Total Expenditure	**48.866**	**54.577**	**5.711**
Surplus C/Fwd	(2.426)	(2.157)	0.269
High Needs DSG Funding	(48.866)	(52.602)	(3.736)
Supplementary Grant	0.000	(1.975)	(1.975)
Total Income	**(48.866)**	**(54.577)**	**(5.711)**
Total	**(2.426)**	**(2.157)**	**0.269**

Early Years Expenditure

9.26 Additional funding has been confirmed in the DSG allocation for 2 year olds of £0.21 per hour and for 3 and 4 year olds £0.17 per hour. 50% of this rate increase will be passed to providers in 2022/23, the remaining 50% will be held back to fund deprivation, central costs and manage the volatility within the block.

School Grants

9.27 In addition to the main DSG, schools also currently receive a number of specific grants, e.g. pupil premium, PE and sport grant, Universal Infant Free School Meals etc. These are calculated and allocated directly by the DfE. Often these grants are only announced annually either on a financial or academic year.

Other Specific Grants

9.28 We also receive a number of other specific grants, although the number and value of these have and will continue to reduce. These grants are in some cases “ring fenced” to individual activities, so spending is dictated along with the funding. Some specific grants are not ring fenced, which means that the Council can choose how funding is spent in accordance with local priorities (even where a grant was previously linked to a specific service or priority). The specific grants (over £50k) we are expecting to receive are as follows:

Table 6: Specific Grants

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Non-ring fenced Grants:				
Benefits Administration Grant	(0.755)	(0.724)	(0.702)	(0.681)
NNDR Administration Grant	(0.417)	(0.417)	(0.417)	(0.417)
CTR Administration Grant	(0.263)	(0.255)	(0.247)	(0.240)
New Homes Bonus	(4.459)	0.000	0.000	0.000
Total Non-ring fenced Grants	(5.894)	(1.396)	(1.366)	(1.338)
Ring Fenced Grants:				
Mandatory Rent Allowances: Subsidy	(27.825)	(20.613)	(20.613)	(20.613)
Mandatory Rent Rebates outside HRA: Subsidy	(10.783)	(7.472)	(7.472)	(7.472)
Discretionary Housing Payments	(0.837)	(0.837)	(0.837)	(0.837)
Youth Offending Team Grant	(0.298)	(0.298)	(0.298)	(0.298)
Social Care Grant	(7.306)	(7.306)	(7.306)	(7.306)
Local Reform & Community Voices Grant	(0.126)	(0.126)	(0.126)	(0.126)
Prison Specific Grant	(0.076)	(0.076)	(0.076)	(0.076)
Former Independent Living Fund Grant	(0.662)	(0.662)	(0.662)	(0.662)
Homelessness Prevention Grant	(2.023)	(1.513)	(1.513)	(1.513)
Improved Better Care Fund	(6.176)	(6.176)	(6.176)	(6.176)
Next Steps Accommodation Programme (NSAP) - Revenue	(0.217)	TBC	TBC	TBC
Bus Service Operators Grant	(0.465)	(0.465)	(0.465)	(0.465)
Asylum Seekers Grant	(1.551)	(1.551)	(1.551)	(1.551)
Staying Put Grant	(0.158)	(0.158)	(0.158)	(0.158)
Looked After Children Remand Grant	(0.100)	(0.100)	(0.100)	(0.100)
Arts Council (Music) Grant	(0.407)	(0.407)	(0.407)	(0.407)
Extended Right to Travel	(0.051)	(0.051)	(0.051)	(0.051)
Strengthening Families Grant	(0.713)	0.000	0.000	0.000
Teachers Pay and Pension Grant	(1.022)	(1.022)	(1.022)	(1.022)
ESFA Adult Learning	(1.105)	(1.105)	(1.105)	(1.105)
School Improvement & Brokerage Grant	(0.270)	(0.270)	(0.270)	(0.270)
Universal Infant Free School Meals	(2.010)	(2.010)	(2.010)	(2.010)
PE & Sport Grant	(1.152)	(1.152)	(1.152)	(1.152)
Pupil Premium Grant	(5.794)	(5.794)	(5.794)	(5.794)
Sixth form funding from Education Funding Agency	(3.329)	(3.329)	(3.329)	(3.329)
Covid Recovery	(0.158)	(0.158)	(0.158)	(0.158)
School Recovery Premium	(0.334)	(0.334)	(0.334)	(0.334)
Virtual School	(0.100)	(0.100)	(0.100)	(0.100)
Police and Crime Commissioner Grant	(0.262)	(0.262)	(0.262)	(0.262)
Public Health Grant	(12.084)	(12.084)	(12.084)	(12.084)
Total Ring Fenced Grants	(87.394)	(75.431)	(75.431)	(75.431)
Total Specific Grants	(93.288)	(76.827)	(76.797)	(76.769)

10. Reserves and Balances

10.1 A risk assessment of the General Fund and Housing Revenue Account balances informs the Director of Finance and Resources view of the adequacy of reserves to provide assurance to the Budget. This is a statutory requirement. This risk assessment has been carried out alongside the development of the 2022/23 Budget to confirm overall General Fund and Housing Revenue Account balances (**Annex P and Annex K** of the Budget Report).

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

10.3 All the reserves listed at **Annex Q** of the Budget Report 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. They are summarised in the table below.

Table 7: Reserves Analysis

	Forecast Balance at 1 April 2022	Forecast Balance at 1 April 2023	Forecast Balance at 1 April 2024	Forecast Balance at 1 April 2025
	£m	£m	£m	£m
GF Working Balance	(28.113)	(28.613)	(28.613)	(28.613)
Earmarked Budget Management & Risk				
-Corporate Property	(2.963)	(2.046)	(1.179)	(1.246)
-Specific Budget Risks	(18.764)	(13.413)	(14.205)	(14.794)
-Welfare Funding	(0.743)	(0.528)	(0.313)	(0.098)
-Transformation/ Restructuring Programmes	(2.745)	(2.595)	(2.595)	(2.595)
Total	**(53.328)**	**(47.195)**	**(46.905)**	**(47.345)**

10.4 The level of General Fund working balance and risk reserves is projected to fall by £5.98m. The Section 151 Officer considers that these balances are prudent and appropriate given the level of risk and complexity of the delivery of the budget.

10.5 Housing Revenue Account balances are in excess of the minimum prudent level. These will reduce over the medium term as the investment plans set out in the HRA Rolling Business Plan are delivered into our existing stock, through regeneration and new build schemes.

10.6 In addition, there are a number of reserves which address the difference in timing between cash receipt and payment, for example the Business Rates

Volatility reserve which helps manage the turbulence and risks in the Business Rates regime.

11. Summary of Available Resources

11.1 The total ongoing resources forecast to be available over the medium-term are shown in the table below.

Table 8: Resources 2022/23 – 2025/26

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Revenue Support Grant	(5.801)	(5.801)	(5.801)	(5.917)
Retained Business Rates	(55.098)	(50.753)	(52.707)	(54.707)
Council Tax (including parish precepts	(147.096)	(154.866)	(162.622)	(170.085)
Public Health Grant	(12.084)	(12.084)	(12.084)	(12.084)
Use of New Homes Bonus	(4.459)	0.000	0.000	0.000
Lower Tier Services Grant	(0.355)	(0.178)	(0.178)	(0.178)
Services Grant	(3.204)	(1.602)	(1.602)	(1.602)
Total Ongoing Resources	**(228.096)**	**(225.284)**	**(234.994)**	**(244.573)**

~~11.2~~ Specific grants and the Better Care Fund are offset against expenditure within services, so are not shown in the table above. The Dedicated Schools Grant is treated as a separate ring-fenced grant, where contributions, if agreed by the Schools Forum reduce expenditure, so again this is excluded from the resources table.

12. The Future Challenge

12.1 Increases in demand for services and uncertainty over Government funding are creating an ongoing need to generate cost reductions and increased income. In total we need to address £25m of financial pressures over the next four years.

12.2 The nature of some of the financial risks and uncertainty is managed through a prudent approach to how some elements of funding have been applied. The Council has retained an element of the Business Rates Growth in a reserve to help manage the impact of the Business Rates Reset. This funding has been included in the MTFP on a reducing basis between 2021/22 and 2023/24. The Council has also used a limited amount of NHB funding for day to day services and this has been removed entirely from 2023/24.

12.3 Net expenditure for the costs of debt financing is anticipated to increase over the medium term, as a result of the Councils capital expenditure plans. Prudential borrowing charges, illustrated in Table 9 below, increase as new internal borrowing is undertaken to support investment in highways infrastructure, Agora and regeneration.

Table 9 – Minimum Revenue Provision

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Historic debt liability (pre-2008)	4.417	4.417	4.417	4.417
Residual Waste Treatment Facility (RWTF)	4.403	4.403	4.403	4.403
Other Prudential Borrowing (from 2008 onwards)	3.400	3.440	3.898	4.037
Total Minimum Revenue Provision	**12.220**	**12.260**	**12.718**	**12.857**

12.4 The table below, shows the financial pressures we must address over the next four years. So far, we have identified specific proposals and one off funding which could address up to £9.7m of these financial pressures but there is still significant work for the Council to do to close the gap, particularly in 2023/24, and to ensure that it remains financially sustainable.

Table 10: Medium Term Financial Forecast

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Government Funding Adjustments	(7.255)	5.126	1.077	(2.116)	(3.168)
Other Funding Sources	(10.962)	(4.861)	(7.345)	(7.079)	(30.247)
Pay, Contract & Other Inflation	10.189	6.761	6.902	6.945	30.797
Budget Service Pressures	7.947	6.223	2.870	2.790	19.830
Budget Delivery	(7.286)	4.371	0.000	0.000	(2.915)
Corporate Measures	13.873	(11.134)	1.000	0.000	3.739
Capital Financing Costs	1.188	(0.473)	0.503	0.000	1.218
One-off Pressures	3.026	1.645	0.822	0.000	5.493
Total Pressures	**10.720**	**7.658**	**5.829**	**0.540**	**24.747**
Budget Reductions & Income Proposals	(5.256)	(1.879)	(1.065)	(1.510)	(9.710)
Less Earmarked Reserves applied to one-off pressures	(3.026)	(1.645)	(0.822)	0.000	(5.493)
Budget Gap	**2.438**	**4.134**	**3.942**	**(0.970)**	**9.544**
Planned drawdown from Earmarked Reserves	(2.438)	5.374	0.000	0.000	2.936
Net Ongoing Position	**0.000**	**9.508**	**3.942**	**(0.970)**	**12.480**

13. Longer Term Financial Prospects

13.1 The MTFP focuses on the next 4 fiscal years. Since 2018/19, local government has only received 12 month funding settlements. In the Provisional Local Government Finance Settlement, the government have indicated that they wish to review local government funding ahead of 2023/24 to update both the data used to distribute funding and potentially more widely. This has meant that the 2022/23 settlement is in effect a roll over settlement from 2021/22, with changes made to reflect increased funding (£1.5bn) and inflation proofing on certain grants. This means that there is continuing uncertainty around many of the core assumptions within our MTFP and limited ability to plan effectively. The Councils approach to budget planning aims to balance the uncertainty from both government funding decisions and general economic factors through a measured approach to delivering new savings, holding prudent levels of reserves and putting in place change programmes which can deliver future efficiencies over a longer timescale. It is recognised that if government support is withdrawn or the wider economic impact is worse than predicted then the Council would need to reconsider the scope of services that it can provide. In this section of the plan, a number of key longer term planning assumptions / decisions are assessed to demonstrate their longer-term potential financial impact.

Children's Social Care – The Milton Keynes child population is increasing at a higher rate than the UK average. In the last year children's services has seen a 21% increase in the number of referrals and 9% increase in contact, resulting in increased demand for support across children's social care services. This together with an increase in the complexity of needs of young people continues to put a pressure on the budget.

Adult Social Care - POPPI and PANSI data alongside local activity data is used to project increases in demand for services. We have assumed demand will settle to pre-pandemic levels. We also look at average cost of care packages (as needs become more complex and packages of care and therefore costs increase). We are bound by the Foundation Living Wage in some of our contracts so this impacts on the contractual inflation award, particularly for homecare and supported living providers. The impact of the Social Care reform is currently unknown, but there are anticipated pressures, not only financially, but in terms of resource pressures across Adult Services and the Finance function.

Homelessness – demand for help and support is difficult to predict, and the financial impact of its translation into temporary accommodation costs is also affected by the variability in supply of affordable permanent or rental housing into which the homelessness duty can be discharged. The service will move into year two of the invest to save programme, which will be particularly challenging as we anticipate there will be an increase in demand for temporary accommodation as we emerge from the pandemic.

Major Contracts – A number of major Environment procurements will be commissioned to commence in 2023. Services will include waste collection and cleansing; landscape maintenance; play areas; service provision for recycling treatment and processing and food and garden waste treatment. The impact of commissioning will include reviewing and facilitating of new infrastructure; including future fleet delivery and linkages between services, investment in new and refurbished facilities. Work is also being undertaken on the re-procurement of the Highways Contract for 2024.

13.2 A high level 10 year review has been undertaken looking at the assumptions for demand, inflation, council tax, business rates income and other government funding over the longer term. **This results in an estimated £3- 4m net pressure per annum showing a need to continue to make savings as increases to costs outstrip growth in income.**

This highlights the need for:

- Real Reform of Social Care Funding
- Relaxation of Council Tax Referendum Limits
- Reform of Business Rates System
- Demand management
- Need to continue to improve productivity through greater use of technology and changes to working practices.
- The Council has always taken a cautious approach to commercial activity and will continue to adopt this moving forwards. This is consistent with the recent changes to the Prudential Borrowing Code. The Council is currently reliant on commercial property income of £1.86m per annum from assets it owns all within Milton Keynes.

14. Sensitivity and Financial Resilience Assessment

14.1 The Council has a significant number of statutory duties that it must perform in addition to its other political and local priorities that it delivers for the benefit of its residents, visitors and businesses. The financial model is complex and subject to significant factors, some of which are not within the direct control of the authority. To help inform members, residents and other stakeholders about the overall financial strength and sustainability of the Council's operations the MTFP considers a series of scenarios, the impact that these would have on the Councils financial position and ability for the Council to manage this.

14.2 The budget is complex and includes many different assumptions across a large range of service areas. The sensitivity assessment considers the key budget assumptions where there is an increased likelihood of change and where this is likely to have a material bearing on the Council's Financial Sustainability. This assessment helps provide an understanding for the organisation and its stakeholders and inform future choices on intervention and the organisations ability to manage existing and appetite for increased risk.

14.3 Based on current assumptions the budget gap over the MTFP is £12.480m. The table below illustrates the financial impact of changes to key variables could have on the MTFP.

Table 11 –Key Variables to MTFP Assumptions

	Variable	Financial Impact £m
Revenue Support Grant	+5% years 2-4	(0.914)
Business Rates	+5% years 2-4	(8.685)
Council Tax Charge	+1% years 2-4	(4.682)
Contractual Inflation	+10% years 2-4	1.413
Pay Inflation	+2% years 2-4	6.226

14.4 The sensitivity of the MTFP is also illustrated in Table 12 and Table 13. The impact of possible changes to current assumptions are used to create optimistic and pessimistic scenarios compared to the current MTFP.

Table 12: Optimistic Scenario

	Change to Assumption	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Business Rates	Partial Reset (50%)	(3.200)	0.000	0.000	(3.200)
Fair Funding Review	+3% per annum	(1.798)	(1.919)	(2.227)	(5.945)
Council Tax	500 additional properties per annum	(0.783)	(0.830)	(0.879)	(2.492)
Inflation	Assumption Unchanged	0.000	0.000	0.000	0.000
Demand Pressures (Adults & Children's)	Assumption Unchanged	0.000	0.000	0.000	0.000
Contingency	Taken as saving year 2	(1.873)	0.000	0.000	(1.873)
TOTAL CHANGE		**(7.654)**	**(2.749)**	**(3.106)**	**(13.509)**

Table 13: Pessimistic Scenario

	Change to Assumption	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Business Rates	Reset 23/24 & no growth	0.954	0.955	1.000	2.909
Fair Funding Review	-3% per annum	1.798	1.811	2.007	5.617
Council Tax	Higher CTRS costs	1.000	1.000	0.000	2.000
Inflation	Year 2 stays at higher year1 assumption	1.961	0.000	0.000	1.961
Demand Pressures (Adults & Children's)	Year 2 stays at higher year1 assumption	1.610	0.000	0.000	1.610
Contingency	No saving - all used	0.000	0.000	0.000	0.000
TOTAL CHANGE		**7.323**	**3.766**	**3.007**	**14.097**

15. Treasury Management

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

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

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

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

15.4 The Prudential Code for Capital Finance incorporates a number of indicators, set as part of the Treasury Management Strategy and Capital Strategy, which are designed to ensure that:

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

15.5 During 2021, CIPFA published revised versions of both the Treasury Management and Prudential Codes of practice. The Treasury Management Code update focuses predominately on improvements to skills & knowledge recording and corporate governance. The Prudential Code update focuses on tightening rules on borrowing to invest primarily for yield such as commercial investments as well as the introduction of a new Prudential Indicator that promotes running down investment balances before reactively raising new borrowing as cash flows demands arise. Formal adoption of these revised codes is not required until the 2023/24 financial year, so the full impact on our treasury approach and any changes required will be incorporated within the 2023/24 Treasury Management Strategy.

15.6 Furthermore, in November 2021 DLUHC launched a consultation seeking views on proposed changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) to better enforce the duty of local authorities to make prudent minimum revenue provision (MRP) charges each year. This consultation ends in February 2022 with an expected implementation date of April 2023.

15.7 Further details on these revised codes of practice and the MRP consultation can be found in the 2022/23 Treasury Management Strategy **Annex O**.

Council Debt

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

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

15.10 The Council's borrowing plans incorporate funding a number of major investments set out in the Capital Strategy.

15.11 In October 2018 the Government abolished the Housing Revenue Account (HRA) Debt Cap which limited Councils' ability to borrow for housing purposes. Whilst the removal of the HRA debt cap gives rise to more capacity to invest in housing stock, and although currently accompanied by low market interest rates, it is not a panacea for unconstrained borrowing. The revenue financing costs of servicing new debt need to be sustainable over the long-term.

15.12 The Council has introduced a local Interest Cover Ratio (ICR) indicator to quantify risk and inform sound financial judgement. The ICR, which we have set at a floor of 1.25, calculates a prudent proportion of HRA Operating Surplus allocated to cover debt servicing costs (voluntary MRP and interest charges). The Council will set and review each year annual upper limits on HRA debt over the 5-year medium term planning period as part of its Treasury Management Strategy.

16. THE HOUSING REVENUE ACCOUNT

16.1 The Housing Revenue Account Business Plan (HRA BP) sets out how we intend to achieve our ambitions to maintain and improve our existing housing stock, regenerate local estates, build new council homes and be the best landlord, by improving the services we deliver to our tenants. The HRA BP is the overarching strategic document that sets out what our anticipated resources and investment priorities are and reflects the renewed ambitions of the council to build more council homes and to bring our existing homes up to a decent standard with a clear focus on carbon reduction and sustainability. Full details on the HRA budget can be found in **Annex K** to the main budget report.

CAPITAL

17. Approach to Capital

17.1 From 2019/20 there is a requirement under the CIPFA Prudential Code and Treasury Management Code that Council's produce a Capital Strategy. The strategy gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The strategy is detailed in **Annex L**.

17.2 We see our capital spending and assets to be an essential part of addressing the medium term financial challenge. This is for three main reasons:

- Funding Source - The assets we hold need to be used as effectively as possible to release funding or generate income in the future. For example, we have an agreement with a major developer to facilitate the sale and development of over 2,500 properties in our Western Expansion Area and we are identifying opportunities to build houses on smaller parcels of land. We are also releasing properties and sites we no longer need to save money in maintenance and running costs while also generating capital receipts.

- Transformation – We are identifying schemes which can transform services to support the financial position over the medium term. For example, asset rationalisation, transforming the delivery of waste services. These schemes are essential to our long term financial sustainability.

18. Capital Principles

18.1 There are a number of principles which we apply to capital, which have been previously endorsed by the Cabinet. These are:

- Emerging pressures are managed within existing cash limits - new capital schemes are not added in year, unless there is an explicit decision to re-prioritise the Capital Programme removing schemes if necessary. All schemes in the Capital Programme must be fully funded.

- Spending is aligned to Key Priorities - capital schemes will be prioritised based on information arising from Council Plan priorities, infrastructure to support the delivery of growth and asset management plans.

- Income is only included in the budget when supported by robust proposals and is therefore deliverable - capital schemes relying on funding from external parties will only be given spend approval when funding is confirmed. Expenditure against capital receipts will normally only be agreed once received.

- Future liabilities are anticipated - the need to maintain the Council's assets is recognised and given priority within the Capital Programme. The Council is developing a pipeline programme to outline future potential investment requirements. This will provide context when prioritising projects for inclusion within the capital programme. In addition, before committing to a scheme the revenue implications are considered and the asset/ investment are designed to be financially sustainable.

- Budgets are sustainable - Council budgets recognise that sales of assets alone are not a sustainable method of funding the capital programme over the medium-term. The Council needs to anticipate finding shortfalls in the Capital Programme and build into its revenue budget the capacity to borrow or make revenue contributions to capital in order to ensure essential infrastructure is provided.

- Base Budget / One-off expenditure/ Capital expenditure are distinguished.

- Capital schemes: Allocation of resources is separate from expenditure approval to spend.

- Capital and revenue planning needs to be integrated to ensure implications are fully anticipated.

- The use of specific grant funding does not lead to budget pressures - where grant funding is made available to schemes there needs to be an explicit assessment of risk. With complex schemes where grant funding is fixed, the Council needs to recognise it would have to wholly fund any overspend.

19. Allocating Capital Resources

19.1 The forecast Medium Term Capital Programme will deliver major investment in Milton Keynes. Some of these items are as follows:

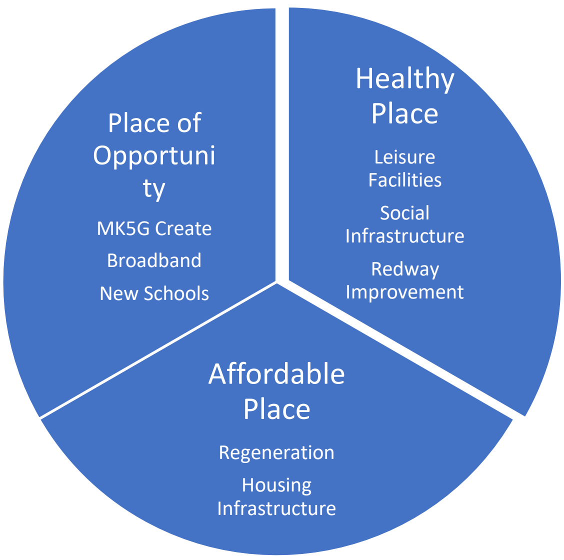
- Current indications are that a further 5000 school places will be required by 2026. This is likely that in addition to those due to open in the next 18 months that a further 2 new primary schools and 1 secondary school, together with a significant number of expansions to existing schools may be required.
- The Council Plan seeks to deliver more affordable housing, council housing and accessible properties, with commitments to develop a timetable for the building of 500 more new Council homes by 2022, and the submission of plans for 700 affordable homes at Tickford Fields by Q1 2022.

- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.

19.2 The Council Plan supports the aspiration that MK should grow to a population of 410,000 and beyond by 2050, supporting the growth of housing within the Borough securing the future of Milton Keynes by delivering Plan:MK, with a vision to be the greenest and most sustainable city in the world. The Council Plan prioritises new infrastructure to support growth including investment in the development of a new university, growth in school places, development of plans for a mass transport system in Milton Keynes and commitment to continue to develop the Strategy for 2050.

19.3 The diagram below shows some of the major schemes and how they contribute to the Council Plan.

Diagram 1: The MK Council Plan and Major Supporting Schemes



19.4 To ensure that capital assets continue to be of long-term use, the Council has developed a Corporate Property Strategy (CPS). There are three key outputs from the CPS:

- An Asset Management Plan which sets out the rationale for retaining, developing, or disposing of assets based on strategic and service delivery need identified in conjunction with the service areas.

- A Building Maintenance Plan which sets out the backlog maintenance and investment required to ensure that the Council is providing the good condition assets in the right location to meet service delivery needs.

- A suite of policy documents setting out how the Council will manage property assets.

19.5 While some funding allocations have Government guidelines for spending, we will use the resources we have available to meet our local priorities in the most effective manner across service areas. Ring-fenced funding is always spent in accordance with requirements.

19.6 In light of the revenue funding position of the Council, we will only use prudential borrowing on schemes which generate an income stream, to avoid adding further pressures to the revenue budget.

20. Estimating Capital Resources

20.1 There are a number of different funding sources for the capital programme, the main funding sources and the key assumptions are explained in the Capital Strategy in section 11 and summarised in table below.

Table 14: Forecast Capital Resources

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Capital Receipts	28.764	1.487	1.656	1.940	1.150
Developer Contribution	4.406	2.455	2.000	0.689	0.000
New Homes Bonus	2.412	1.267	1.866	2.601	0.000
Prudential Borrowing	54.664	46.174	24.897	15.449	2.760
Single Capital Pot	40.127	8.655	9.290	10.068	9.206
Grant	76.890	48.032	6.841	6.065	1.118
Third Party Contribution	0.000	0.000	0.000	0.000	0.000
MRR	13.830	13.821	0.000	0.000	0.000
HRA Revenue	32.629	29.148	0.000	0.000	0.000
GF Revenue	4.100	1.000	0.000	0.000	0.000
Total	**257.822**	**152.039**	**46.550**	**36.812**	**14.234**

20.2 Both in total and at the individual resource level these are at best prudent estimates of future resources, but may be subject to change. The medium term position will continue to be updated on a regular basis.

21. Forecast Capital Expenditure

21.1 In order to assess our capital expenditure needs we have to consider a number of different issues (as set out in section 18.1). The forecast expenditure position is as follows:

Table 15: Forecast Milton Keynes Council Capital Expenditure

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Education – Continuing Schemes	12.064	3.757	0.000	0.000	0.000
Education – New Starts	2.030	2.030	2.030	2.030	2.000
Transport – Continuing Schemes	16.957	4.086	4.366	4.866	0.000
Transport – New Starts	55.350	37.837	9.231	9.301	8.693
Social Care & Housing GF – Continuing Schemes	0.000	0.000	0.000	0.000	0.000
Social Care & Housing GF – New Schemes	1.117	1.117	1.117	1.117	1.118
Housing HRA – Continuing Schemes	42.990	28.689	21.703	11.889	0.000
Housing HRA – New Starts	45.316	43.751	0.000	0.000	0.000
EPCS – Continuing schemes	36.803	32.577	5.964	5.468	0.100
Strategic Pot– New Starts	21.993	1.050	1.050	1.050	1.050
TOTAL Expenditure	**234.620**	**154.894**	**45.461**	**35.721**	**12.961**

21.2 The forecast Medium Term Capital Programme will deliver major investment in Milton Keynes. Some of these items are as follows:

- In response to increased development and the corresponding growing population, the demand for new school places is constantly managed. Current indications are that a further 5000 school places will be required largely within the new development areas by 2026. This increase in demand has led to one new primary school and one new all through school planned to be opened in new development areas within the next 18 months. It is likely that a further 2 new primary schools and 1 secondary school (being delivered as an all through school) will also be required. There may also be a requirement for additional expansion projects to be delivered to mitigate any area specific shortfalls that might be experienced over the coming years. However, no expansion projects have been identified as being required at this moment in time.

- The Council Plan seeks to deliver more affordable housing, council housing and accessible properties, with commitments to develop a timetable for the building of 500 more new Council homes by 2022
- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.
- ICT investment in systems replacement and infrastructure to reduce the costs of support and maintenance and to enable workforce efficiencies through better use of technology.

22. Summary Capital Programme

22.1 The table below shows a summary of the capital position over the MTFP period and the resources allocated in the Capital Programme.

Table 16: Forecast Summary of Capital Resources and Expenditure

	2022/23 **£m**	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**	**2026/27** **£m**
Capital Resources	257.822	152.039	46.550	36.813	14.233
Capital Expenditure	234.620	154.894	45.461	35.721	12.961
Net Position (surplus) / deficit	(23.202)	2.855	(1.089)	(1.092)	(1.272)
Cumulative Position (surplus) / deficit	(23.202)	(20.347)	(21.436)	(22.528)	(23.800)

22.2 Whilst Table 21 shows an excess of resources over planned expenditure, £21.8m of this funding is Education specific as outlined in paragraph 27.2 above, and the remainder relates to Integrated Transport funding. There is also a number of areas expenditure which will require funding in the future, increasing the overall funding requirement.

- Pipeline schemes require further work prior to further consideration.
- A Transport Infrastructure Delivery Plan has been approved. This builds on the adopted 2018 Mobility Strategy and the Infrastructure Delivery Plan for Plan MK and its evidence base to clarify the transport infrastructure requirements in the next 10-15 years. Specific schemes have not yet been

developed, but a number of potential projects have been included within the pipeline programme.

- It is also likely that the Council will need to improve net financial returns across its asset base over the medium term to meet capital requirements, or to contribute (under new legislation) to the transformation costs of the Council. This has also not yet been fully identified or included within the programme.

23. Risks

23.1 A critical element of the MTFP is to ensure that the financial consequences of risk are adequately reflected in the Council's finances. All of the main risks that face the Council are considered in order to assess the likelihood of the risk happening and the potential financial implications. The main risks for the 2022/23 Budget fall into these main categories:

- Income and funding risks.
- Demands for service delivery.
- Inflation
- Delivery of savings.

23.2 These are summarised in **Annex R** (General Fund) and **Annex K** (Housing Revenue Account) of the budget report.