**ANNEX O**

# CAPITAL STRATEGY 2021/22

## 1. INTRODUCTION

1.1. The capital strategy was first introduced for 2019/20. It 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.

1.2. The aim of the report is to demonstrate how Milton Keynes Council (MKC) takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

1.3. The purpose of the capital strategy is to explain how Milton Keynes (MK) determines it's priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. The capital strategy sets out the long term context in which capital expenditure and investment decisions are made.

## 2. MILTON KEYNES CAPITAL INVESTMENT CONTEXT

2.1. The capital programme for Milton Keynes Council is developed in the context of an expanding city, balancing the need for both investment in new infrastructure and enhancement of existing assets.

2.2. Infrastructure before Expansion is a principle which has been critical to the success of Milton Keynes, ensuring as far as possible that existing communities are not adversely impacted by the continued growth of the city.

2.3. Government policy recognises Milton Keynes as an area of high housing demand. Centrally located, in the **Oxford to Cambridge Arc**, Milton Keynes has consistently been one of the fastest growing cities in the country, both in terms of population and economic growth. MK is the third most productive UK city outside of London.

2.4. The **MK Futures 2050 Commission** was set up in September 2015 as a way of thinking about the future of the city, helping to create a long term vision for the way MK should grow and prosper over the coming decades. The 2050 Commission Report "Making a Great City Greater" set out a long term vision for the Borough to 2050 and identified Six Big Projects which the Council has taken forward through the MK Futures 2050 programme. These projects include the work to create a new tech-focussed undergraduate university in the city centre, in partnership with Cranfield University, and the development of innovative mobility solutions for the city.

2.5. A particular focus has been given to the development of a **Strategy for 2050** to set out a long-term vision for the future of Milton Keynes. This non-statutory document provides a framework of policies which will inform future iterations of the Local Plan and other strategies and policy documents and includes policies to support the delivery of the other MK Futures 2050 projects, helping to identify and strengthen the links between them. The Strategy for 2050 proposes the growth of MK to a population of around 410,000 people by 2050, with the construction of 30,000 – 35,000 new homes in addition to the 25,000 homes already committed through existing plans. It also proposes 50,000 – 90,000 new jobs across the city and the delivery of a mass rapid transit network to provide mobility for all.

2.6. Good progress has been made since the Commission's recommendations, including the adoption of the Strategy for 2050 as an annex to the Council Plan (at Full Council on 20 January 2021), and a new MK Futures Programme is now being prepared to plan for the next three years of delivery, to be agreed by Cabinet by June 2021.

2.7. The Strategy is coordinated with the development of the review of Plan:MK.

2.8. **Plan:MK** is the Local Plan for Milton Keynes, setting out a development strategy for Milton Keynes and will deliver a minimum of 26,500 new dwellings up to 2031. The plan which has a range of detailed policies to guide development over this period, was adopted in March 2019. This includes policies relating to the delivery of necessary infrastructure to support the level of planned growth.

2.9. A review of Plan:MK is being undertaken and will direct the spatial growth of Milton Keynes up to 2040. This will take account of the council's growth proposals, as outlined in the Strategy for 2050, alongside progress on the delivery of the Government's wider Cambridge – Milton Keynes – Oxford Corridor growth corridor.

2.10. As part of Plan:MK an **Infrastructure Delivery Plan (IDP)** was compiled for the delivery of infrastructure to support the continued expansion of development within the Borough.

2.11. The aim of the IDP was to:

- Identify what infrastructure is needed to sustainably support future strategic growth within the Borough of Milton Keynes.
- Explain the approach the Council has taken to identifying this infrastructure that will serve both employment and housing growth, how it will be delivered, and where possible highlight potential risks associated with doing such development.
- Seek to support and inform the Council's policies including those in the new Plan:MK.

2.12. Included within the IDP, infrastructure requirements are categorised under Schools, Highways, Health, Leisure & Community, and Landscape and Open Space; together with estimated costs, potential funding sources and delivery dates through to 2030. Responsibility for the delivery of the infrastructure covers both MKC and developers. The IDP is a strategic picture of the infrastructure requirements; therefore, as growth options are refined the IDP will be updated to extend the understanding of infrastructure needs beyond 2031 towards 2050.

2.13. Milton Keynes has developed a Mobility Strategy which is a long term transport strategy for the Borough. This strategy outlines the council's approach for the design and use of the city's local transport system and how it connects with the wider strategic transport system of motorways, trunk roads, and railways, setting out an implementation plan that is intended to ensure Milton Keynes' transport system is improved to support growth, access to jobs and the quality of life for local communities defined in the council plan. This strategy, together with the **Transport Infrastructure Delivery Plan** and IDP, will inform future capital decisions for investment in transport infrastructure.

2.14. The **Council Plan** was updated in June 2020 to reflect new priorities emerging due to the impact of COVID-19.
Included within the priorities are:

- support for COVID-19 recovery to ensure services react quickly to changing circumstances;
- support for business and economic recovery from the impact of COVID-19 whilst we continue to plan for the long term by seeking consensus for PlanMK:2 and the 2050 Strategy and encouraging inward investment in new green industry;
- Action on climate change and sustainability;
- Investment in 'getting the basics right' including waste collection, highways maintenance and tackling homelessness.

Within the priorities are commitments for investment in infrastructure which include:

- Support for the delivery of a fully electrified East West Rail and continue to promote better connectivity and infrastructure across the Oxford-MK-Cambridge Arc
- Continue to support the development of a mass rapid transport system
- Deliver better waste and landscape services
- Continue to ensure high level of pothole repairs and road maintenance
- Build an eco-village of Council and genuinely affordable homes using land at Tickford Fields
- Progress regeneration on the Lakes Estate and Fullers Slade
- And commitments for a brighter future in Bletchley including supporting a bid for £25m town improvement funding.

2.15. The Council is seeking to deliver the objectives of PlanMK both by work with developers and through the development of its existing land assets.

2.16. The Land East of the M1, identified as MK East, is a strategic development site formally allocated in Plan MK, contingent on identifying and securing infrastructure funding. In March 2019, the Council applied to the government's Housing Infrastructure Fund (HIF) for £94.6 million of forward funding grant support, to pay for the delivery of essential upfront infrastructure (highways, a new road bridge across the M1, a primary school and community health hub) to unlock the delivery of 5000 homes on this land, including 1550 affordable homes.

2.17. In July 2020 a decision was taken to accept this grant funding and to develop a 'Tariff 2" mechanism for MK East site, in line with the requirement of the Milton Keynes East Development Framework SPD previously adopted by the Council, to ensure HIF grant monies and all other infrastructure contributions due from developers are recovered from the Development and reinvested in Milton Keynes.

2.18. Tickford Fields Farm is a c.45 ha development site in Newport Pagnell. The site is allocated in the Newport Pagnell Neighbourhood Plan for Residential development and is in the freehold ownership of the Council. Planning permission was recently (Sept. 20) granted in outline for up to 930 dwellings along with associated uses (local centre, school, health & wellbeing centre etc.). In anticipation of the implementation phase, the Council is currently seeking a development partner to deliver its vision for the site – a sustainable and mixed community comprising both affordable and housing, with placemaking and sustainability as key considerations.

2.19. In October 2011 Cabinet approved terms for a sales agreement to be entered into with Redlawn/Gallaghers (R/G) to enable the disposal of sites for development to deliver housing in the Western Expansion Area. The intention was to share the infrastructure costs and land sale receipts, in line with the respective ownership percentages, with the entire process to be managed by R/G. This agreement was signed in March 2019 and a disposal strategy for the land has been developed. Infrastructure works, and disposal of the land parcels have commenced; with MKC anticipating a share of capital receipts from 2022 onwards.

2.20. In response to increased development and the corresponding growing population, the demand for new school places is constantly managed. Between 2016/17 and the end of the 2019/20 academic year the mainstream primary cohort grew by 2.3%, (601 children) predominately as a result of new housing developments in the growth areas of MK. During the same period of time the secondary cohort grew by 9.4% (1410 children) as a result of a previous demographic increase within the established communities as well as some additional demand from new housing. As a result of this, Milton Keynes Council had one of the largest school place expansion programmes in the country. Since 2016 we have added 19 Forms of Entry (FE) into the primary sector at Year R, 4FE at Year 3 (junior) and 25 FE into the secondary sector where additional demand has been identified.

2.21. Current indications are that a further 6000 school places will be required largely within the new development areas by 2026. This is likely to require a further 5 new primary schools and 1 secondary school (being delivered as an all through school), 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.

2.22. Other than responding to growth, Housing is a key area for Council capital investment. The Council Plan seeks to deliver more affordable housing, council housing and accessible properties, with commitments to build 1200 more new Council homes by 2030, investigating establishing a disruptive council-owned housing company to deliver 2,000 new truly affordable homes by 2023 and to deliver the refurbishment programme to an efficient high standard. MKDP (Milton Keynes Development Partnership) is exploring the creation of a Local Housing Company (LHC) and the development of a full business case for this, as agreed by Cabinet in March 2020.

2.23. Milton Keynes Council owns around 11,500 properties spread over 70 locations, with approximately 25% situated in “priority” areas. Many of the properties in these areas are of non- traditional construction and in need of substantial investment. This investment in housing stock sits within the Housing Revenue Account (HRA). A five year £165m Capital Investment Programme began on the 1 April 2019 this will address the lack of decency by prioritising components such as kitchens, bathrooms, roofs, windows, rewiring and heating systems, as well as fire safety improvements and investment in communal areas.

2.24. The Housing Revenue Account (HRA) Business Plan is Milton Keynes Council’s strategic plan for managing and maintaining its housing stock. The business plan was originally approved in January 2019 and set out how we intended to achieve our ambitions to maintain and improve our existing housing stock, regenerate local estates, build new council homes and improve the service we deliver to tenants. In September 2020, the business plan for the period 2020/21 to 2049/50 was reviewed and refreshed, taking account of our revised housing and regeneration ambitions and the changes to the financial environment, notably the abolition of the cap on HRA borrowing and this draft became the basis for a full consultation with tenants. The final business plan will be taken to Cabinet in February 2021 alongside this report.

2.25. The HRA business plan model is the 30-year rolling financial forecast of our statutory maintenance programme and our approved capital programme and has also been reviewed and refreshed this year and reported to Cabinet along with the refresh of the strategic business plan. The business plan financial model captures the financial position of the HRA for 30 years and has been subject to an independent external review to ensure our assumptions are robust. Any surplus in the HRA together with the borrowing capacity identified represents the amount that the council can invest in its key priorities over the next 30 years (further details are available in the Treasury Management Strategy). There are a significant number of variables that can impact the availability of resources in the business plan; including inflation assumptions, risk of Brexit on cost estimates, borrowing costs, etc. and as a result it will be critical to review the business plan annually to closely monitor the impact of any changes on the availability of resources.

2.26. The 2021/22 Capital Programme will include budgets to support the continuing delivery of new council housing, planned maintenance of the housing stock, and housing regeneration. As housing schemes are developed and the pipeline prioritised, new capital budgets will be brought forward during the year (subject to their individual assessment of VFM and their individual impact on the business plan tested).

## 3. CAPITAL EXPENDITURE DEFINITION & ACCOUNTING POLICY

3.1. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. This includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £20,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: 2019/20 Statement of Accounts, Page 44

3.2. For 2021/22 the de minimis level for capitalisation is £20,000 unless specifically agreed differently by the Director Finance & Resources.

## 4. CORPORATE GOVERNANCE OF PROJECTS

4.1. The capital programme is set on an annual basis and includes a review of existing projects which have not yet commenced, new submissions, available capital resources and any new funding streams. Quarterly revisions to the capital programme are approved by Cabinet, with any intervening emergency decisions or significant new schemes being approved as required through Delegated Decision.

4.2. Decisions and monitoring of the capital programme is through a series of project, and programme boards, with strategic overview through the Corporate Portfolio Board.

4.3. The governance structure consists of a three tier hierarchy with devolved responsibility to the Programme Boards in terms of recommending projects for prioritisation and allocation of capital resources.

4.4. A Corporate Portfolio Board provides oversight of corporate projects and programmes, and in particular:

- Receives assurance from Programme Boards
- Provides an escalation route when requesting Cabinet decisions
- Recommends budget allocation and release of Capital project budgets, and
- Provides strategic oversight, alignment & challenge

## 5. PROJECT MANAGEMENT METHODOLOGY

5.1. Capital Projects are managed in the Council using the MK Approach methodology. This is a user friendly best practice guide to managing projects at the Council. It focuses on the essential elements needed within the organisation and is a *minimum* standard for all projects. It is a scalable approach: smaller projects can use the framework, while more complex projects can use it as a foundation in conjunction with their specific needs. The guide has been developed internally in consultation with existing project managers and support service teams to make the approach as relevant as possible for the organisation.

5.2. Project documentation has been developed in conjunction with the MK Approach, including project mandate, outline business case, and project initiation forms (known as the START business case), together with specific documents and templates for use throughout the project lifecycle.

## 6. SUBMISSIONS TO THE CAPITAL PROGRAMME

6.1. Services are asked annually to review the following years capital programme. Schemes are split into two categories, those which relate to specific funding blocks, e.g. Highways Maintenance, Integrated Transport, Schools Basic Need and Asset Management, HRA, and those of a more ad hoc nature where funding is from non-ring fenced sources.

6.2. Programmes of work are developed for the specific funding block schemes, and project documentation reviewed by the Programme Boards.

6.3. For all other schemes, business cases and project documentation are prepared. The proposals are reviewed and challenged by Programme Boards to ensure schemes meet with service priorities. Schemes are scored using a prioritisation matrix and this is used to inform decision making in ranking schemes in priority order, with a particular focus on those supporting future housing delivery.

6.4. The Corporate Portfolio Board appraises all bids based on a comparison of service priorities and strategic alignment prior to prioritisation by Cabinet for inclusion within the capital programme. The final capital programme is then approved by Cabinet and Council in February each year.

- For full details of the Council's capital programme, see: **Annex I** Council Budget 2021/22 and **Annex X** Medium Term Financial Plan 2021/22 to 2024/25.

6.5. A number of schemes are identified at the end of the capital programme as pipeline projects. These are schemes where a need has been identified, but the project has not currently been fully developed for inclusion within the capital programme at the current time. Many of these schemes are identified within the local investment plan, and whilst some of these may already have specific ring fenced funding attached others are not currently funded. As schemes are developed further, and funding identified, they will be presented for inclusion within the programme.

## 7. MONITORING OF THE PROGRAMME

7.1. Once approved in the capital programme projects are required to be 'Categorised' according to risk factors which facilitate the organisation to have oversight and sponsorship at the most appropriate management level.

7.2. These are categorised as follows:

- Category 1 – High Risk
- Category 2 – Medium Risk
- Category 3 – Low Risk

7.3. Risk assessment can be subjective, and depend on the particular project.

7.4. Individual projects and programme boards are responsible for receiving regular (highlight) reports from project managers and summarising them for inclusion in the Quarterly Corporate Project Dashboard. In addition for Category 1 projects, the relevant Programme board is provided with copies of the highlight report along with the summary position for the Corporate Project Dashboard.

7.5. The capital programme is monitored on a monthly basis by project managers and programme boards, with monthly reporting to the Corporate Leadership Team and quarterly reporting to Cabinet.

7.6. Reporting against the approved capital programme includes forecasts for both in year expenditure and that over the life of the project, together with commentary about progress of the project and any significant issues.

## 8. CAPITAL EXPENDITURE

8.1. In 2021/22, the Council is planning capital expenditure of £107.865m as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

| | **2019/20 actual £m** | **2020/21 budget £m** | **2021/22 budget £m** | **2022/23 budget £m** | **2023/24 budget £m** |
|---|---|---|---|---|---|
| General Fund services | 71.980 | 79.974 | 61.187 | 80.870 | 42.382 |
| Council housing (HRA) | 36.366 | 78.246 | 46.678 | 39.380 | 37.448 |
| Investment activity classed as Capital | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **TOTAL** | **108.346** | **158.220** | **107.865** | **120.250** | **79.830** |

8.2. The main General Fund capital projects include completion of the construction of two new secondary schools £33m, a new primary school £10m, investment in highway network improvements £45m, HIF grant projects of £79m for highways and £15m for social infrastructure, together with investment in broadband, ICT and leisure.

8.3. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes investment in new homes, and environmental improvements alongside planned maintenance £123m.

8.4. Changes in accounting standards for 2021/22 statement of accounts will require amendments to capital expenditure to reflect changes in accounting for leasing. The impact of this is currently being assessed and expenditure will be updated during 2021/22.

## 9. ASSET MANAGEMENT

9.1. The Corporate Property Strategy 2019-2024, which was adopted in February 2020, set out a process of Asset Challenge with the service areas to identify their property needs for future service delivery. Through this process, the aim was to reduce running costs, reduce maintenance liabilities, and to focus investment on the right properties in the right locations to deliver good quality services.

9.2. 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 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.

9.3. In March 2020, the implications of the Covid-19 pandemic became apparent. Overnight, our working environment and practices changed and there was an obvious knock-on effect for our property assets. Across the property sector, numerous organisations are looking to downsize their property portfolio to reduce revenue and capital pressures. For many organisations, there has been a shift from office-based activities to working in a virtual environment.

9.4. Prior to the pandemic, the work to develop the Corporate Property Strategy identified that the spend on buildings was unsustainable in the long-term, given the increasing age of the properties and the ballooning maintenance obligations. An accelerated Asset Rationalisation Programme has therefore been developed in response to the opportunity the Covid-19 outbreak.

9.5. The Asset Rationalisation Programme is split into three phases:

- Accommodation Plan (a programme of team moves, building operations and building closures)
- Co-location (highlighting opportunities for co-location of services)
- Development (opportunities for development of sites as they become vacant)

9.6. The Council’s revenue spend on its corporate estate of circa 164 assets was £5,769,700 in 2019/20 with a similar amount due to be spent on the portfolio in 2020/21. There is backlog maintenance of £3.8m of works identified through condition surveys for the above properties. There is currently £2m in the property reserve to fund backlog maintenance and this will be added to as receipts from surplus properties are realised.

9.7. A savings target of £0.4m has been included in the revenue budget to reflect anticipated savings from the asset rationalisation programme.

9.8. The schools asset management programme is a targeted programme of works based on survey information. This includes works to windows and doors, roofs, heating and fire alarm systems. Current expenditure is approximately £2m a year.

9.9. The Highways asset management strategy was approved by Cabinet in March 2018. This sets out the Councils plans for the maintenance and operation of the streets of Milton Keynes over the coming years, recognising their vital role ensuring the vitality of our communities and the success of our local and regional economy. The strategic approach to investment in the road network, takes into account maintainability and whole-lifecycle cost.

9.10. In 2011 it was estimated that there was a backlog in maintenance of £8m for highways, £48m for streetlights, and £31m for bridges. In response to this in 2012, the Council agreed to use prudential borrowing for increased planned maintenance on the basis that increased short-term investment would reduce the maintenance backlog and allow the Council to bring the network to a steady state condition, thereby saving money in the long-term. This investment has enabled the Council to carry out more preventative maintenance and to start to move towards a more sustainable asset management approach. To date a total of £50.9m has been spent on this programme with a further £2.4m approved in 2020/21. A further £13.6m is planned over the next 5 years.

9.11. The HRA Business Plan financial model, which is a forecast of income and approved capital and revenue expenditure over a 30-year period, is currently showing an overall surplus of £114m. This surplus will be applied to meet the future costs of housing regeneration and estate renewal, providing new council housing, and any further improvements in the management and maintenance of the housing stock, in line with Council Plan objectives and Cabinet decisions.

9.12. The business plan financial model includes allowances for addressing the following:

- There was a backlog of repairs which will be largely eliminated during the 5-Year Planned Maintenance Programme.
- 23% of the Council’s housing stock is classed as non-decent. The latest English House Survey states that in 2017, 13% of social rented homes (516,000) failed to meet the Decent Homes Standard.
- The current investment programme allows some improvement in the condition of the public realm on council estates, initial costs of regeneration work along with increased investment in council homes themselves as well as 289 new build and property acquisitions.

9.13. For 2021/22 the capital programme includes the third year of the five year programme of investment in the HRA stock, alongside provision for the construction of new council housing. As housing schemes are developed and the pipeline prioritised, new capital budgets will be brought forward during the year (subject to their individual assessment of VFM and their individual impact on the business plan tested).

9.14. In October 2018 the Government announced that it was scrapping the restrictive HRA debt cap. Whilst its removal gives rise to the possibility of significant additional borrowing by the HRA to support housing regeneration and new housing stock build programmes, 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 and the schemes delivered able to clearly demonstrate value for money.

9.15. Since the 2012 housing self-financing reforms, the Council has applied a single pool approach to debt costs; managing its overall debt as a single portfolio and apportions costs to the HRA and GF at a consolidated rate in proportion to the Capital Financing Requirements (CFR) of each.

9.16. So far, the Council's capital spending plans funded by borrowing for both the HRA and GF have remained broadly similar which largely offsets the impact on debt costs to each other. But with no statutory upper limit to HRA borrowing capacity other than affordability, and with ambitious regeneration and new build aspirations, capital spending plans funded by borrowing between the HRA and GF will significantly diverge.

9.17. In response, in September 2020 Cabinet received, as part of a report on refreshing the HRA business plan and capital investment, proposals on the HRA Future Financial Framework which included a recommendation to change from a single aggregate debt pool to two separate pools from 2020/21 onwards and this was agreed. This approach creates a clear and immediate distinction between HRA and GF debt and its associated servicing costs and allows the HRA to pursue a debt strategy appropriate to delivering the HRA Business Plan.

## 10. CAPITAL FINANCING

10.1. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

**Table 2: Financing of the Capital Programme**

| | 2019/20 actual £m | 2020/21 forecast £m | 2021/22 budget £m | 2022/23 budget £m | 2023/24 budget £m |
|---|---|---|---|---|---|
| External sources | 41.339 | 66.711 | 54.947 | 78.332 | 41.688 |
| Own resources | 44.589 | 50.672 | 45.885 | 41.038 | 37.448 |
| Debt | 22.418 | 40.836 | 7.033 | 0.880 | 0.694 |
| **TOTAL** | **108.346** | **158.220** | **107.865** | **120.250** | **79.830** |

## 11. FUNDING SOURCES

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

- **Tariff:** In December 2005 the government approved the Tariff approach to funding the infrastructure needed for the next phase of growth in Milton Keynes. The approval allowed English Partnerships, the government's regeneration agency, to act as banker by providing the advanced funding needed to ensure that the essential physical and social infrastructure required for the Eastern and Western Expansion Areas was in place at the right time. The management of the tariff was transferred to Milton Keynes Council in 2013 and as the operator of the Tariff; the Council is also responsible for controlling expenditure across the whole Tariff mechanism. Through the Tariff mechanism, the Council will collect over £310m in developer contributions over its lifetime, which will be re-invested in a Programme of strategic and local infrastructure covering a total of 18 'portfolios', 11 of which are delivered through the Council and are included with the Council's capital programme as schemes are brought forward.
- **S106 Developer Contributions:** In addition to Tariff funding the council also receives funds from Developers under S106 agreements. S106 funding is agreed with developers on individual site by site basis and sums are provided to mitigate the harm caused by the development. This funding can only be used for the original intended purpose.

11.2. Prudential Borrowing: The Council over time has built into its revenue base budgets the funding to support prudential borrowing for investment in highways and waste infrastructure. The Prudential Code allows local authorities to undertake unsupported borrowing so they can deliver projects such as spend to save schemes or take decisions to direct resources from revenue to capital to enable service enhancements. However, before using unsupported borrowing, the Council must be satisfied that the additional borrowing costs can be afforded within future years' budgets.

## 12. MINIMUM REVENUE PROVISION (MRP)

***Capital expenditure incurred before 1st April 2008***

12.1. Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146, as amended) require local authorities to make a prudent amount of minimum revenue provision (MRP) for the repayment of debt. This represents the minimum amount that must be charged to the Councils revenue account each year of the cost of financing of capital expenditure.

12.2. The regulations separately identify supported capital expenditure incurred before 1st April 2008 (before the introduction of Prudential Regulations) from self-financed borrowing incurred after this time. Up until 2014/15, the Council charged MRP on this historic debt liability in line with Ministry of Housing, Communities and Local Government (MHCLG) guidance Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (Capital Financing Requirement (CFR)) each year on a reducing balance basis. This reducing balance method means that historic debt liability would never be fully repaid, and would take around 200 years to reduce to a near-zero level. The statutory guidance states that the broad aim of a 'prudent provision' is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or in the case of borrowing supported by revenue support grant, reasonably implicit in the determination of that grant.

12.3. In 2015/16, the Council changed the MRP policy applied to pre-2008 debt liability from a 4% reducing balance to a 2% straight line method. This involved taking the net pre-2008 debt liability and fully providing for debt repayment equally over a period of 50 years, a period broadly equal to the Council's depreciation policy for land and buildings. In addition, this re-profiling of MRP provides for a more stable debt financing charge for budgeting and planning purposes, free from the annual fluctuation caused by a reducing-balance method.

12.4. The regulations allowed for the Council to recalculate MRP charges back to 1st April 2008 as if the 2% straight-line method had always been applied. Any backlog overprovision of MRP resulting from this change of calculation basis may be adjusted by reducing future annual MRP charges (in part or in full) in a prudent manner, considering the wider impact upon the Council's financial position.

***Capital expenditure incurred from 1st April 2008 onwards***

12.5. For capital expenditure incurred from 1st April 2008 onwards, MRP is charged on a straight-line basis over a period linked to the estimated life of the assets financed (this option must be applied for any expenditure capitalised under a Capitalisation Direction), known as (MHCLG) Option 3. This method provide for a reduction in the borrowing consummate with the approximate asset's life.

12.6. The MRP calculation also provides for:

- the repayment of capitalisation directions issued by the Secretary of State in respect of expenditure incurred at Local Government Reorganisation; and
- an adjustment in respect of commuted payments made to or for the benefit of the council in 1992-1993.

12.7. There is no statutory requirement to charge MRP on HRA debt liability. But in not doing so, no prudent provision is made for its eventual repayment. Charging MRP ensures that lifecycle provision is made for the replacement of assets by cleared the debts used to fund them.

12.8. Authorities are free to make Voluntary Additional Payments (VAP), effectively overpayments, to reduce debt liability quicker if they so wish. Voluntary overpayment above the minimum requirements, or in the case of the HRA where not statutorily required, can be clawed back in future years if deemed necessary provided the council discloses the annual and cumulative value of overpayments each year.

12.9. For historic HRA debt liability, the Council will only charges voluntary MRP where sufficient surpluses are identified within the HRA business plan to support repayments.

12.10. For new HRA unsupported borrowing, straight line voluntary MRP will be applied reflecting the consumption period of those assets as:

- **Land acquisitions;** Nil, its value to the HRA is not expected to diminish;
- **Regeneration schemes;** 2% per annum / write down over 50 years;
- **New HRA house build schemes;** 1% per annum / write down over 100 years;
- **Build of houses to be sold on open market;** Nil, the debt liability will be repaid from eventual sale proceeds;
- **HRA house open market acquisitions;** on an estimated remaining asset life basis set under delegated authority by the Section 151 officer.

12.11. This policy ensures a more commercial financial approach to HRA borrowing plans by requiring cash provision to be set aside for eventual debt repayment where appropriate, but also allows the HRA flexibility to use its surplus funds to repay its debts or invest in further housing provision.

## 13. ASSETS FOR FUTURE DEVELOPMENT

13.1. Where assets are purchased for confirmed future development and it is anticipated that future sale proceeds will offset the cost, in such cases MRP will not be applied and the repayment of the debt liability will be funded from the future capital receipts. This approach will be reviewed on an annual basis to ensure that anticipated sales proceeds continue to offset the cost of debt.

## 14. COMMERCIAL PROPERTY INVESTMENT

14.1. For property assets purchased under the Commercial Property Investment Strategy, the Council may apply a voluntary MRP charge (VRP) on a 10% proportion of the assets value over a 15 year period to reflect a realistic level of principal risk, on the basis that the assets will typically be held for a period of between 10 to 20 years.

14.2. This approach demonstrates regard to Government guidance on prudent provision and, at the same time, ensure that the Council retains the flexibility to reverse this voluntary set-aside provision at a future date should the assets be sold or the value of the assets increase.

## 15. PROPERTY FUND FOR TEMPORARY ACCOMMODATION

15.1. The Council has entered into an agreement to invest in the Real Lettings Property Fund managed by Resonance UK (a Social Investment Company) to provide up to 70 property units to address the urgent need for suitable temporary accommodation in Milton Keynes. The council expects its investment to be returned in full with surpluses accruing from capital growth and so MRP is not applied. The values of the fund and the underlying assets will be kept under review to ensure that the Council's holdings continue to offset the cost of debt.

## 16. CAPITAL FINANCING REQUIREMENT

16.1. The Prudential Code requires local authorities to calculate the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for a capital purpose.

16.2. The Council's CFR increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) / loans fund repayments and capital receipts used to replace debt. The Council's CFR is expected to increase by a net £32.849m during 2020/21. Based on the above capital programme figures for expenditure and financing, the Council's estimated CFR is as follows:

**Table 3: Prudential Indicator: Estimates of Capital Financing Requirement**

| | 2019/20 actual £m | 2020/21 forecast £m | 2021/22 budget £m | 2022/23 budget £m | 2023/24 budget £m |
|---|---|---|---|---|---|
| General Fund (GF) Services | 447.492 | 444.182 | 441.525 | 434.624 | 426.096 |
| Capital Investments (see Sections 19 & 20 below) | 35.500 | 35.500 | 35.000 | 35.000 | 35.000 |
| Council Housing (HRA) | 229.841 | 266.000 | 267.444 | 266.658 | 265.872 |
| **TOTAL CFR** | **712.833** | **745.682** | **743.969** | **736.282** | **726.968** |

16.3. The CFR for 2021/22 and subsequent years will require amending once the impact of changes in the accounting for leases has been assessed (IFRS 16), which brings such financing liabilities on balance sheet and therefore into the CFR calculations.

## 17. ASSET DISPOSALS

17.1. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The disposal of assets in MKC is reviewed by the Strategic Property Board. This board aims to provide a formal 'gateway' approval process and consider making formal recommendations to the Council for any MKC property disposal, acquisition or significant change of use. The board manages the strategic oversight, for the future of all property and land assets within MKC's property portfolio.

17.2. The Council expects to receive £1.925m of capital receipts (excluding Right to Buy) in the coming financial years (2021-4) as follows:

**Table 4: Capital receipts**

| | 2019/20 actual £m | 2020/21 forecast £m | 2021/22 budget £m | 2022/23 budget £m | 2023/24 budget £m |
|---|---|---|---|---|---|
| Asset sales GF | 1.134 | 1.779 | 0.250 | 0.250 | 0.000 |
| Asset sales HRA | 3.083 | 12.101 | 0.985 | 0.220 | 0.220 |
| Loans repaid | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **TOTAL** | **4.217** | **13.880** | **1.235** | **0.470** | **0.220** |

17.3. The Council has various land holdings in the Western Expansion Area which are currently being taken forward for development. It is expected these sales will generate the Council significant capital receipts over the period from 2021/22 to 2026/27, although actual values and pace of delivery will be dependent on market conditions. The structure of the proposed agreement between Milton Keynes Council and the other land owners means that the upfront financial liability for the infrastructure will fall on the developer, with the Council receiving a net income stream. The first call on receipts is to repay all infrastructure costs. This means the Council will only benefit as receipts exceed the investment. For this reason no assumptions have been made in the capital programme on the use of these receipts.

17.4. **Flexible Capital Receipts:** From 2016, a new national directive has allowed local authorities to use capital receipts to fund the revenue costs of transition. This directive only applies to new capital receipts from 2016/17. Local authorities cannot borrow to fund the costs of change. The plans for using this new power need to be notified to the Department for Communities and Local Government before the beginning of the financial year and individual projects using this power need to be declared as part of the Budget process and Medium Term Financial Strategy. At present new capital receipts are being used to fund the demand for capital expenditure which arises from the growth of Milton Keynes and the relatively high cost infrastructure which needs to be maintained. There are currently no plans to use capital receipts for transformation funding.

## 18. TREASURY MANAGEMENT

18.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed.

18.2. At 1st April 2021 the Council expects to hold external borrowing in aggregate of £458.4m; for the General Fund £232.5m at an average interest rate of 4.32% and for the HRA £225.9m at an average interest rate of 4.33%. During 2021/22 the Council expects to hold on average treasury investments of c. £285.0m at an average interest rate of 0.57%.

18.3. **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans and more expensive long-term fixed rate loans where the future cost is certain.

18.4. Projected levels of the Council's total outstanding debt (which comprises borrowing and lease liabilities) are shown below, compared with the Capital Financing Requirement (the CFR, as described above).

**Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement**

| | 2019/20 actual £m | 2020/21 forecast £m | 2021/22 budget £m | 2022/23 budget £m | 2023/24 budget £m |
|---|---|---|---|---|---|
| Debt | 465.398 | 458.372 | 448.639 | 438.542 | 422.328 |
| CFR (see Table 3) | 712.833 | 745.682 | 743.969 | 736.282 | 726.968 |

18.5. Statutory guidance states that debt should remain below the Capital Financing Requirement, except in the short-term for cashflow management purposes. As can be seen from Table 5 above, the Council expects to comply with this in the medium term.

18.6. **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. A lower "operational boundary" is also set as a warning indicator should debt approach the authorised limit. In line with statutory guidance, these limits are set on aggregate and so are not separately stated for the General Fund and Housing Revenue Account.

**Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt**

| | 2020/21 limit £m | 2021/22 limit £m | 2022/23 limit £m | 2023/24 limit £m |
|---|---|---|---|---|
| Borrowing limit | 760.0 | 845.0 | 935.0 | 970.0 |
| Other long term liabilities limit | 10.0 | 10.0 | 10.0 | 10.0 |
| **Authorised limit – Total** | **770.0** | **855.0** | **945.0** | **980.0** |
| Borrowing limit | 730.0 | 815.0 | 905.0 | 940.0 |
| Other long term liabilities limit | 10.0 | 10.0 | 10.0 | 10.0 |
| **Operational Boundary – Total** | **740.0** | **825.0** | **915.0** | **950.0** |

18.7. The 'Other long term liabilities' limits of both the authorised limit and operational boundary for 2021/22 and subsequent years may require amendment once the impact of changes in the accounting for leases (IFRS16) has been fully assessed.

- Further details on borrowing can be found in the Treasury Management Strategy

18.8. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

18.9. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code and the Ministry of Housing, Communities and Local Government (MHCLG) guidance require Council's to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return/yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults as well as the risk of receiving unsuitably low investment income.

18.10. The Council aims to maintain the diversity of its investments as a means of limiting exposure to credit risk. For short-term investments, a range of unsecured certificates of deposit, money market funds and loans to other local authorities will be primarily utilised. For longer-term investments, higher yielding asset classes and/or more secure (collateralised/asset-backed) options will be sought.

- Further details on borrowing are can be found in the Treasury Management Strategy

18.11. **Risk Management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

18.12. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director Finance & Resources and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Cabinet who are responsible for scrutinising treasury management decisions.

## 19. INVESTMENTS FOR SERVICE PURPOSES

19.1. The Council makes investments to assist local public services, including making loans to the Council's subsidiary, MKDP. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate an income return after all costs.

19.2. **Governance:** Decisions on service investments are made by the relevant Service Director in consultation with the Director Finance & Resources. Most loans and share investments are classified as capital expenditure, so any such transactions will therefore also be approved as part of the capital programme approval process.

## 20. COMMERCIAL ACTIVITIES

20.1. With Central Government financial support for local public services declining, Councils are looking for more innovative means of securing sustainable income sources. The Council does not currently invest in commercial investments purely for financial return, but may consider doing so in the future.

20.2. Where financial return is the main investment objective, the Council may be willing to accept higher risks on commercial investment than it would with treasury investments.

20.3. Although not classed as treasury management activities per se, the CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational as well as commercial investments which are made mainly for financial reasons.

20.4. **Milton Keynes Development Partnership (MKDP)**

In 2012/13, the Council lent £31.6m to its wholly owned subsidiary Milton Keynes Development Partnership (MKDP) to finance the acquisition of assets from the Homes and Communities Agency (HCA). The balance outstanding at 31st March 2020 was £30m with a new one year secured loan for £30m approved by both parties in October 2020. MKDP plan to repay this debt to the Council through eventual proceeds from the strategic sale of assets.

20.5. **YourMK LLP**

In July 2020, The Council agreed (via delegated decision) to terminate the regeneration partnership and dissolve YourMK (a 50% joint-owned partnership with the Mears Group). The LLP will be formally wound up during 2021/22.

20.6. **National Homelessness Property Fund**

The Council holds a £5m principal investment (match-funded by external investment) in the National Homelessness Property Fund (the Fund). This investment was undertaken for service reasons to reduce the ongoing cost to the Council of providing temporary housing accommodation. At 31 September 2020 (latest available) the Net Asset Value of the Council's investment was £4.536m, which represents an unrealised revaluation loss against principal of £0.464m. The unrealised valuation loss is due to the basis of property asset valuation; the assets were acquired on an Open Market Value (OMV) basis, but have been revalued at Existing Use Value (EUV) based on sub-market rental income streams to reflect the ongoing use as temporary accommodation. If the assets were sold to liquidise the Council's investment, it would be with vacant possession and thus the valuation method would revert back to OMV, so it is expected that the book loss would be fully recovered and with additional capital/housing market growth. The Fund provides over 20,000 bed-nights per year which results in an ongoing annual saving of around £200,000 against alternative temporary placement costs. Incidentally this investment also generates a distributed income return into the Council of approximately 2% per annum.

20.7. **Governance:** Decisions on commercial investments are made by the Director Finance & Resources. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

## 21. LIABILITIES

21.1. In addition to debt figures detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £28.8m). It has also set aside £39.004m to cover risks of Business Rates Appeals, and £9.626m for other risks, of which £4.288m relates to insurance provision and £4.176m Term Time only Settlement Provision. The Council is also at risk of having to pay for major contingent liabilities but has not put aside any money as the amounts or obligations are uncertain.

21.2. The most significant contingent gains and losses disclosed in the council's accounts for the year ending 31st March 2020 are as follows:

- In January 2013 the council took over the management of the Milton Keynes Tariff, which is a framework Section 106 agreement under which developers contribute to the provision of local and strategic infrastructure to mitigate the impact of growth. The terms of the funding agreement state that the council will manage the expenditure so that the tariff deficit is managed down to zero by the risk share cut-off date. In the event that this is not achieved, a risk sharing agreement is in place with the Homes and Communities Agency and the Ministry of Housing, Communities and Local Government to allocate the first £22.0m of any deficit in the proportion 10:5:7. The council will be liable for any tariff deficit in excess of the risk share.

The council is currently of the view that there will be no deficit share for which it will be liable. A separate risk reserve is held to mitigate any future impact £5.624m.

- Milton Keynes Council has entered into an agreement in accordance with Section 11(6) of the Local Government Act 2003 which enables the council to retain additional capital receipts. These additional receipts must be used towards the provision of new affordable housing within the borough. If, following three years from the date of receipt, any of the capital receipt remains unspent by the council, the remaining element is required to be repaid. Any repayment due will be subject to interest 4% above the base rate at the date of expiry. At the 31 March 2020 the value of receipts that were not allocated to a specific project was £2.330m.
- Due to the uncertainty in terms of both timing and amounts Milton Keynes Council have estimated a provision for future reduction in business rate appeals arising from the business rates revaluation on 1 April 2017. As such, the potential for further reductions above or below this amount is a potential liability to Milton Keynes Council which cannot be estimated at this time.
- Milton Keynes Council has not been able to disclose an asset in the Collection Fund accounts for rating amendments which have not yet been completed by the Valuation Office. This is because they are uncertain both in terms of amount and timing; as such, the potential for further income is unknown and so a contingent asset is disclosed within the Statement of Accounts.

21.3. **Governance:** Where the Council is considering entering into new liabilities or exposing itself to contingency liabilities this will be subject to a high level of due diligence and managed through the Council’s scheme of delegation.

## 22. REVENUE BUDGET IMPLICATIONS

22.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP charges are charged to revenue, offset by any investment income receivable. The net annual financing costs can be compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants, to illustrate the proportion of the Councils resources required to cover net financing costs.

22.2. Note that figures from 2020/21 onwards are predicated on a two pool approach to borrowing (see paragraph 9.17 above). This has the effect of lowing the ratio for the General Fund and increasing it for the HRA as under a two pool approach, the HRA is assumed fully funded by external debt and so the benefits of internal borrowing (saving on cost of carry interest costs by utilising cash in-hand to defer borrowing) reverts to the General Fund in full. This is a short-term impact to the HRA, with HRA borrowing in the future expected to be at lower rates that pre-existing debt, which will reduce the average cost of borrowing.

**Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream**

| Proportion of net revenue stream | 2019/20 actual | 2020/21 forecast | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|---|
| General Fund | 9.84% | 7.73% | 7.37% | 7.03% | 7.21% |
| HRA | 37.65% | 42.54% | 42.69% | 41.89% | 40.31% |

22.3. **Sustainability:** The capital programme requires the Council to enter into long term financial commitments in terms of debt financing and additional operational costs. These have been fully comprehended within the Council's MTFP and are considered prudent and sustainable.

## 23. KNOWLEDGE AND SKILLS

23.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director Finance and Resources and Heads of Finance are qualified accountants with significant experience. The Council pays for graduate trainees to study towards CIPFA professional qualifications and invests in providing professional training in other service areas.

23.2. Where the Councils needs to supplement the knowledge and skills of its staff, use is made of external advisors and consultants that are specialists in their field. The Council currently employs Link Group as Treasury Management and Leasing advisors, and PWC as VAT advisors. This approach ensures the Council has access to specialist expertise when needed to support its staff, commensurate with its risk appetite.

## 24. LINKS TO COUNCIL STRATEGIES AND PLANS

The Council Plan: Council June 2020

Plan MK: Council March 2019

Infrastructure Delivery Plan: Council March 2019

Mobility Strategy: Cabinet March 2018

Transport Infrastructure Delivery Plan: Delegated Decision October 2019

Regeneration Strategy: Cabinet July 2015

Highways Asset Management Strategy: Cabinet March 2018

Financial Procedures

2019/20 Statement of Accounts

Treasury Management Strategy

## 25. LINKS TO EXTERNAL DOCUMENTS

Centre for Cities http://www.centreforcities.org/wp-content/uploads/2018/01/18-01-12-Final-Full-Cities-Outlook-2018.pdf

MK Futures 2050 http://www.mkfutures2050.com/images/pdfs/reports/MK50-Futures-Report-1-FINAL-SP.PDF

Cambridge-Milton Keynes – Oxford Arc https://www.nic.org.uk/publications/partnering-prosperity-new-deal-cambridge-milton-keynes-oxford-arc/