MILTON KEYNES COUNCIL

23 FEBRUARY 2010

Report considered by Cabinet – 16 February 2010

Purpose:

This report sets out the 2010/11 Revenue budget and Capital programme. It includes the results of the budget consultation exercise and cross refers to the Housing Revenue Account and rent increase agreed for 2010/11.

Background:

The draft 2010/11 Revenue budget and Capital programme was agreed for consultation at the Cabinet meeting held on 22 December 2009. This report sets out the Council's Budget Strategy for 2010/11 and encompasses the financial impact of proposed corporate and service based changes.

BUDGET REPORT 2010/11

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1. Recommendations

1.1 That the directorate estimates and estimates for the General Finance Account items set out in **Annex B**, based on an indicative minimum Council Tax increase of 1.5% be approved taking into account the comments arising from scrutiny of the budget by a meeting of the Budget Review Group on 2 February 2010.

1.2 That it be noted that the budget is a financial exposition of the priorities set out within the Corporate Plan and the Directorate Service Plans.

1.3 That it be noted that, in line with the requirements of the Local Government Act 2003, the Corporate Director of Finance and Risk Management (subject to a minimum Council Tax increase of 1.5% as outlined above), is of the view that:

- The General Fund balances of £7.053m and the level of reserves, particularly in relation to capital, are adequate to meet the Council's financial needs for 2010/11. This view takes account of the reserves included in the Council's latest audited Accounts as at 31st March 2009, the movements of those reserves since that date – which have been tracked through the monthly Budget Monitoring Reports. Note also, that the projections in the HRA balance to maintain the balance at £4.729m by 31 March 2010 are also considered to be adequate at this point in time but will need to continue to be reviewed in the light of the challenges facing the HRA.

- The General Fund estimates are sufficiently robust to set a balanced budget for 2010/11. This takes into account the adequacy of the level of balances and reserves outlined above and the assurance gained from the comparisons of the 2009/10 budget with the projected spend identified in the December 2009 (Period 9) Budget Monitoring Report which shows an underspend of £4.179m against the agreed budget for 2009/10. The Corporate Director of Finance and Risk Management's view also takes into account the issues raised in the Audit Commission's most recent Annual Letter.

1.4 That it be noted that at its meeting on the 26 January 2010, the Cabinet agreed its Council Tax Base for the 2010/11 financial year in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992.

1.5 That the policy requiring the Corporate Director of Finance and Risk Management to seek to mitigate the impact of significant changes to either resources, such as Formula Grant changes, or expenditure requirements be continued.

1.6 That the summary of the HRA Budget and Rent Setting report agreed by Cabinet on 26 January 2010 and shown here at **Annex N** be noted.

1.7 That the approach of using reserves to manage emerging risks and liabilities; and to use one-off monies released from the review of reserves and other funding sources to support the capital programme or other one-off expenditure, as detailed in **Annex D** be continued.

That Council be recommended:

1.8 That the following calculation of the Council's budget requirement in terms of its gross revenue and income including transactions on the Housing Revenue Account as required by Section 32 of the Local Government Finance Act 1992 be agreed:

CALCULATIONS UNDER SECTION 32 OF THE LOCAL GOVERNMENT FINANCE ACT 1992		
		£m
a)	Aggregate of amounts which the Council estimates for the items set out in Section 32(2) a) to e) of the Local Government Finance Act 1992.	561.448
b)	Aggregate of amounts which the Council estimates for the items set out in Section 32(3) a) to c) of the Local Government Finance Act 1992.	367.014
c)	Aggregate of amounts which the Council estimates for the items set out in Section 32(4), being the amount by which the sum aggregated at (a) above exceeds the aggregate of (b) above.	194.434

1.9 That the following amounts be calculated by the Council for 2010/11 in accordance with Section 33 of the Local Government Finance Act 1992:

a) **£194.434m,** being the amount calculated under Section 32(4) of the 1992 Act as the Council's budget requirement for 2010/11.

b) **£103.616m,** being the aggregate of the sums which the Council estimates will be payable for 2010/11 into its General Fund in respect of redistributed NNDR, Revenue Support and Area Based Grant increased by the amount the Council estimates will be transferred from its Collection Fund to its General Fund pursuant to the Local Authorities (Funds) (England) Regulations under Section 97(3) of the Local Government Finance Act 1988 made on 21 January 2010.

c) **£90.818m**, being the amount at (a) above less the amount at (b) above, all divided by the amount which has been calculated by the Council as its Council Tax Base for 2010/11, in accordance with Section 33(1) of the 1992 Act, as the basic amount of the Council Tax for 2010/11.

1.10 That the following amounts be calculated by the Council for 2010/11 in accordance with Section 36 of the Local Government Finance Act 1992:

VALUATION BANDS							
A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
777.56	888.64	999.72	1,110.80	1,332.96	1,555.12	1,888.36	2,221.60

Being the amounts given by multiplying the amount at 3.16(c) above by the number which, in the proportion set out in Section 5(1) of the 1992 Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the 1992 Act, as the amounts to be taken into account for 2010/11 in respect of categories of dwellings listed in different valuation bands.

1.11 That it be noted that the Thames Valley Police Authority, in accordance with section 40 of the Local Government Act 1992, has stated the following amounts of precepts issued to the Council for 2010/11:

VALUATION BANDS							
A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£

1.12 That it be noted that the Buckinghamshire and Milton Keynes Fire Authority, in accordance with section 40 of the Local Government Act 1992, has stated the following amounts of precepts issued to the Council for 2010/11:

VALUATION BANDS							
A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£

1.13 That as a result of items 1.10, 1.11, and 1.12 above, the amounts of Council Tax shown in Schedule C to **Annex O** be set, in accordance with Section 30(2) of the Local Government Act 1992, for each of the categories of dwelling shown in the Schedule.

1.14 That the Capital Programme set out in **Annex G** and the financing of that programme set out in **Table 28** be approved.

1.15 That it be noted that this programme takes no account of the one-off funds that are likely to be available as additional funding to the programme from 2010/11 onwards, as it is prudent not to anticipate resources until they are clearly achievable and that if funding is not secured this will be funded from slippage and addressed through the development of the 2011/12 Capital Programme.

1.16 That the Treasury Management Strategy for 2010/11 to 2012/13, and the Treasury Policy Statement coming into force on 1st April 2010 as set out at **Annex M** be agreed.

1.17 That the criteria for lending and the financial limits set out at **Annex M2** be agreed.

1.18 That the prudential indicators for Capital Expenditure and the Capital Financing Requirement, the Authorised Limit and Operational Boundary for External Debt, the Affordability Prudential indicators and the Treasury Management Prudential Indicators for the years 2010/11 to 2013/14 as set out in Section 8, and **Annex M** be agreed.

1.19 That the authorised limit for external debt of £415m agreed above for 2010/11 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

1.20 Milton Keynes Council will create and maintain, as the cornerstones for effective treasury management

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.21 The content of the policy statement and TMPs will follow the recommendations contained in the Treasury Management Code of Practice, subject only to amendment where necessary to reflect the particular circumstances of Milton Keynes Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

1.22 The council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.23 Milton Keynes Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director of Finance and Risk Management, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.24 Milton Keynes Council nominates its Overview and Scrutiny Management Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Cabinet Member's Comments and Recommendations:

A recommendation from the Cabinet member will be tabled at the meeting.

2. Related Decisions

2.1 Previous decisions in this context relate to:

- The Council Budget and Council Tax Report for 2009/10 agreed by Council on 26th February 2009.
- The Budget Management 2009/10 and Medium Term Financial Planning 2010 – 13 Report agreed by Cabinet on 21st July 2009
- The Budget Management 2009-10 and Medium Term Financial Plan 2010 – 13 Report agreed by Cabinet on 22nd September 2009
- The Capital Programme Update Reports presented to the meetings of Cabinet regularly.
- The Budget Monitoring Reports presented to the meetings of Cabinet regularly.
- The Draft Budget Report 2010/11 agreed by Cabinet on 22nd December 2009
- Council Tax Base setting report agreed by Council on 26th January 2010
- Minutes of the Budget Review Group meeting held on 2nd February 2010.

3. Background

3.1 The annual budget decisions are among the most important of those which local authorities are called upon to make during the course of the year. This is emphasised by the fact that they are among the few decisions which the Council is not permitted by law to delegate to a Committee or to Officers. They affect every household and service user and the manner in which decisions must be made is closely prescribed by law. **Annex A** of this report sets out the relevant legal considerations which affect the budget process of which Members must be aware. Members are required therefore to give careful consideration to the information and advice set out in this report.

3.2 In addition, the Local Government Act 2003 placed a specific personal duty on the Corporate Director of Finance and Risk Management to report to Council on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. Members are advised that due regard has been given to the requirement of the Local Government Act 2003 during the current budget process. Specific reference is made to the adequacy of the General Fund reserves in paragraph 5.19 and to the robustness of the estimates included in Section 10 in the budget proposals. The position on the HRA reserves includes a projected level of balances of £4.729m by 31 March 2010. This level of balances is in-line with the Council's policy on reserves and balances.

3.3 It should also be noted that there is an ongoing requirement to review limits and indicators in accordance with the Prudential Code. There is a requirement to agree these indicators and limits in conjunction with the Council's overall budget.

3.4 This report deals with budget issues in the following sequence:

Section 4 – General Fund Financial Performance in 2009/10

Section 5 – General Fund Budget Strategy 2010/11

Section 6 – General Fund 2010/11

- Overall Budget
- Issues addressed in the Budget
- General Fund Resources
- General Fund Expenditure
- General Fund Savings
- Impact of Budget at Directorate Level

Section 7 – Capital

Section 8 – Prudential Code

Section 9 - Housing Revenue Account

Section 10 – Risks/Robustness

4. General Fund Financial Performance in 2009/10

4.1 Based on Directors' returns, the General Fund forecast for 2009/10 at the end of December is for the revenue outturn to be an underspend of £2.369m against the revenue budget.

4.2 Should this position be maintained and taking into account the actual outturn position in 2008/09, the unallocated General Fund reserves of £7.461m brought into 2009/10 and other reserve movements would see a reduction of £0.408m going into 2010/11. In line with the requirements of Local Government Act 2003, the Corporate Director of Finance and Risk Management is of the view that the General Fund balances and the planned level of reserves set out in **Annex D** are adequate to meet the Council's financial needs for 2010/11.

4.3 The Council's finances are recognised by the Audit Commission, in the Comprehensive Area Assessment (CAA) where the Council's Use of Resources score remained at a 2 in the 2009 assessment. The reason for this is that the Audit Commission believe that Councillors and managers need to work together to improve:

- financial planning;
- understanding costs and achieving efficiencies;
- using performance management to promote delivery of value for money;
- financial reporting; and
- accounts preparation

4.4 Members are reminded that the assessment criteria for Use of Resources were substantially revised in 2008 with the result that maintaining a 2 score in 2009 actually indicates that the Council has been able to demonstrate real improvement. However, the changes made during 2009/10 should demonstrate to the Audit Commission that there is a positive direction of travel this year. The results of the 2010 assessment will be published later in the year, but will generally reflect improvements made up to 31 March 2010.

5. The General Fund Budget Strategy 2010/11

Principles

5.1 The budget has been prepared on the basis of the framework set out in the Revenue and Capital Strategies which were agreed by Cabinet in September 2010. The framework specifically referred to 10 key financial principles as the basis on which future budgets and medium term financial strategies would be developed. These are set out below:

- Emerging pressures are managed within existing cash limits
- Spending plans are aligned to key priorities
- Income is only included in the budget where supported by robust proposals
- Future liabilities are anticipated

- Budgets are sustainable
- Budgets distinguish between Base Budget/ One-off Expenditure/ Capital Expenditure
- Savings proposals are supported by appropriate project plans
- For capital schemes,
    - the allocation of resources is separate from expenditure approval
    - Capital and Revenue planning is integrated
- The use of specific grant funding does not lead to future Revenue Budget pressures
- The council reduces its dependency on reserves to balance the budget

5.2 Adhering to these principles in developing both the Budget and Medium Term Financial Plan will assist the Council to demonstrate that it meets the requirements of the Comprehensive Area Assessment and achieves value for money in the delivery of its services.

Impact of the Credit Crunch

5.3 The current economic position has had a significant impact on most sectors and some economic commentators have compared this to earlier economic crises. The UK currently has problems related to consumer indebtedness and a public sector which some believe has expanded too quickly. It is important that the Council and the community recognise the wider economic context in which the Budget Proposals 2010/11 has been developed.

5.4 Milton Keynes Council recognised the importance of providing support to residents and businesses suffering from the effects of the recession. To help promote the support, finance and services that were available from the Council and other partners, a one stop advice and support website was launched. The four main “Recession Buster” themes which have been promoted during the economic downturn:

- Supporting businesses
- Developing skills and employment opportunities
- Supporting individuals and communities
- Developing the Milton Keynes ‘offer’

5.5 The effects of the economic downturn in Milton Keynes appear to be mixed. The Centre for Cities report “Cities Outlook 2010” published on 18th January 2010 identifies Milton Keynes as one of the cities that are well placed to recover from the recession earlier than many others. This has been explained as it has a strong private sector, high levels of entrepreneurship, and a large proportion of knowledge-intensive jobs. However, the City faired poorly in respect of the rate of increase of Job Seekers Allowance

5.6 Many of the challenges arising from the credit crunch will impact on the Council over the medium term and are reflected in more detail in the Medium Term Financial Plan Report 2011/12 to 2013/14 which will also be considered by Members at February Cabinet. However, the economic downturn has had a more immediate financial impact which has been reflected in this budget.

5.7 The main issues dealt with in this report are:

- Pension Fund (referred to in the section on Sustainability paragraph 5.15)
- Reductions in inflation (referred to in paragraph 5.28 – 5.32)
- Decreasing income (addressed under Fees & Charges paragraph 6.34)

Resourcing the Council's Priorities

5.8 The Council's planning and performance arrangements are in the process of being refreshed and improved to develop a 'One Council' approach to corporate business planning bringing together service and business and financial planning into a unified framework. The specific objective of the process will be to cement the alignment between the Council's Vision, the Council Plan and organisational and service planning outcomes, all reinforced by a new and effective Performance Management framework.

5.9 However the aim of the budget is to assist these changes by ensuring that there is a clear resource framework in place to underpin the delivery of services both next year and for future years through the Medium Term Financial Plan. Ideally the development of both service and financial plans would take place much earlier in the year than is the position this year. The reshaping of Council services and the recruitment/restructuring of the Council's top tier has resulted in both the service and budget planning having to take place in most service areas in late autumn and early New Year rather than starting in May/June. Nevertheless outline service plans have been developed which link to the budget proposals contained within this report.

5.10 The process for 2010/11 has built on the previous year's approach but introduced a number of key changes:

- Each Directorate developed a package of proposals designed to highlight their priority areas for additional resources/funding. These formed the basis of the discussions at Cabinet, Scrutiny (Budget Review Group) and CLT meetings. Following a challenge process a list of areas were agreed for which fully detailed and costed priority investment proposals were developed.

- The planning documentation was revised to emphasise the link between business and financial planning processes.

- The linkages between the Sustainable Community Strategy/Corporate Plan priorities were explicitly highlighted.

- Capital planning for new schemes was fully integrated into the "MK approach" project management process.

- Directorates were required to demonstrate value for money for all service areas where growth in excess of £100k was requested.

- Growth pressures which were likely to be unavoidable due to external or other factors were highlighted.

- Potential areas for savings or increases in income had to be fully justified.

- One-off expenditure proposals for schemes which have a limited time-frame were identified separately.

- Capital proposals and any revenue consequences arising from the investment to be incorporated into the budget.

5.11 Growth proposals were matched against available resources arising out of the whole budget process to determine the shape of the final budget. The growth proposals are listed in **Annex J** and summarised in each Directorate's budget extract, as set out in Section 6.

5.12 The introduction of the new capital programme management arrangements (explained in Section 7) which, specifically in relation to property, are driven and prioritised through the Asset Management Plans (AMPs) which themselves are linked to Service Plans. The use of the AMPs not only provides a link to property condition surveys but also prioritises the schemes and identifies future resource needs.

Reshaping

5.13 Key elements of reshaping the Council took place in 2009, with further progress being made during the year to embed the new arrangements, notably the appointment of 2nd tier senior managers within the reshaped directorates. Reshaping has been driven by the need to:

- Respond to the Government's agenda, in particular the integration of Children's Services and the establishment of a Children's Trust.

- Reinforce the development of the strategic commissioning function within the Community Wellbeing and links to the Housing Function.

- Make sure that there is a top team in place providing corporate leadership: which is strategic, and more outcome-focused.

- Establish directorates of relatively similar size, influence, responsibility and accountability, and bring together functions which have a synergy.

- Take action to improve performance particularly in the light of the Penn Report, poor performance in School Attainment and a weak CPA score.

5.14 The budget reflects these new structures. However, within the Council's financial systems there is still work to be completed to reflect the changes in the structure and to implement a revised scheme of delegation which is due to come Cabinet in March.

Sustainability

5.15 In following the principles outlined in paragraph 5.1 the Council has agreed the following:

- Pension Fund

- The Pension Fund is administered by Buckinghamshire County Council. The outcome of the 2007 triennial revaluation of the Pension Fund was reported to Members in 2008. As a consequence of actuarial advice following the valuation, the contribution was set at 18.6% in 2008/09 and has remained at this level since.

- The Fund value at the time of the 2007 valuation was £211m which represented some 82% of its pension liabilities at that date having increased from a 66% funding level at the 2004 valuation. Despite the improvement in funding at the triennial valuation as at 31st March 2007, the Fund's assets nevertheless remain lower than its projected liabilities and a recovery period of 20 years to reach full funding has been agreed.

- The Actuary will next carry out a triennial valuation of the Fund's assets and its pension liabilities as at 31st March 2010, but this is unlikely to be available until the end of 2010. Early indications from the actuary are that the fund will remain in deficit at the next revaluation due to the volatility in the financial markets and the impact of the credit crisis. The approach used in the budget build has been taken in the light of advice received from the Fund actuary and projected funding for the Pension Fund movements over the last 18 months. The latest projection is that this will require an increase in employer's contribution of at least 1% in 2011/12 (the first year affected by the next revaluation).

- It would be prudent to anticipate an increase in the level of Pension Fund contributions arising from the forthcoming Actuarial review of the Council's pension liabilities held in the Buckinghamshire County Council Pension Fund as at 31 March 2010. This report builds £0.7m into the base budget position to reflect a likely increase in employer's contribution.

- Waste

- Within Europe and the UK the current way we deal with much of our waste is unsustainable, as historically significant amounts of waste have gone into landfill sites and levels of recycling have been low. Most recognise that this method of disposal is not environmentally sound nor is it sustainable in the context of the reduction in number of suitable sites for further landfill. Therefore more must be done to encourage recycling and minimise the volume of waste going to landfill. In the UK the use of Landfill Tax and a system of tax credits, the Landfill Allowance Trading Scheme (LATS), has financially incentivised councils to increase recycling and positively discourage (through increasing the cost of waste disposal) the use of landfill. Landfill tax is increasing the cost per tonne of landfill waste by £8 a year. Based on a broad measure of c100,000 tonnes a year of waste collected by MKC, this would cost an additional £0.8m annually or the equivalent of just under a 1% increase in Council Tax.

- To avoid incurring these additional costs and to assist in increasing the level of recycling the Council entered a joint agreement with Northamptonshire County Council in 2006 to develop joint residual waste treatment facilities, known as “Project Reduce”. In 2008 an Outline Business Case was submitted to the Department for Environment, Food and Rural Affairs (DEFRA) to obtain financial support for the scheme, through PFI credits. The scheme has been successful in securing PFI credits and it is anticipated that the current tendering process will lead to a final award of contract in summer 2011.

- The costs of the joint scheme are likely to be substantial with an anticipated whole life cost over 25 years of some £3bn of which MKCs share would be around a £1bn. These are estimates, however the final position will not be known until the outcome of the tendering process is completed. Even based on these estimates, the costs are projected to be significantly less than those that would be incurred if the Council continued to landfill. Nevertheless, there is likely to be a substantial increase in costs, through the unitary charge arising from a PFI deal, particularly in the early years when many of the planned treatment facilities come on stream.

- Based on the Outline Business Case, the best estimate of the incidence of cost increases is that by 2014/15 MKC waste disposal costs will increase by £2.5m. Over the five financial years to 2014/15 it would be sensible to increase the base budget by £0.5m annually so that a substantial hike in costs in that year is avoided and the impact on the budget is smoothed over the intervening period. This budget includes a proposal to make the first of these investments in 2010/11

- Other Sustainability issues

- The Council is committed to achieving balanced, sustainable communities through the Milton Keynes Sustainable Communities Strategy and this is encapsulated in the Council Plan which has at its heart six key objectives:

  - Improve educational attainment and safeguard children;

  - Encourage all sections of our community to get along well together and to make a positive contribution;

- Create an environment in which we all feel safe;

- Develop an economy with a sustainable and long-term future;

- Improve health and ensure a high quality of life for all aspects of the community; and

- Develop sustainable transport solutions.

- In addition, the Plan is clear that regeneration and growth are two continuous themes running through these objectives which will help deliver a sustainable community.

- Having consulted with the public and the Council's partners, considered national and regional issues and decided which services where improvement is needed, The Council agreed six Council Priorities for 2009/10 – 2010/11. To align the Council's priority setting process with other planning cycles such as the Government's Comprehensive Spending Review these priorities will be in place for two years until April 2011 at which point a three yearly cycle will be established for the next priority refresh.

- The six Council Priorities are:

    - Public Transport;
    - Children's Education & Skills;
    - Road & Pavement Repairs;
    - Neighbourhood Regeneration;
    - Activities & Facilities for Young People; and
    - Dealing with the Recession

- This budget provides funding for a range of initiatives linked to this agenda including;

    - Schools built to BREEAM "excellent" standard;
    - £20k investment in the climate change strategy;
    - Continued investment in public transportation. Last year the Council agreed to raise Council Tax by 0.5% and to earmark these funds to resolve issues raised by the report of the Citizen's Advisory Group on Transport (Cagot). That has been continued within this budget. The funding allocated to this is £0.445m (equivalent again to raising 0.5% through Council Tax);

- o Continued investment in concessionary bus fares in addition to the statutory framework;
- o Investment in Central Milton Keynes and Wolverton train stations;
- o £1.5m plus investment in the Council’s waste and recycling strategy; and
- o Securing of pilot status for the first city-wide electric car scheme.

Resourcing of Asset Renewal, Repair and Maintenance

5.16 Like many other councils, Milton Keynes has engaged in renewal of many of its key assets, such as schools. However, there are a number of other assets, such as the road and bridge network, which also require substantial additional resources to those currently available to the Council. The approach to these wider investment needs and how the funding gap might be bridged is set out in the Medium Term Financial Plan.

5.17 It is important that the resourcing links to the plans that the Council has in place for the future development of its assets. In this context, there have been a number of significant strategies and underlying processes that have either been adopted by the Council in recent months, or are in the process of adoption, which shape the future investment requirement of some of its key assets.

Asset description/process	**Commentary**	**Date**
Capital Programme development /monitoring	A new approach to Capital planning /monitoring and review	Agreed by Cabinet in November 2009
Property	New Asset Management planning approach	In place from summer 2009
	Property strategy	To go to Cabinet February 2010
ICT	ICT strategy	Agreed by Cabinet January 2010
Housing	Decent Homes strategy	In place
	Future housing strategy will be developed in light of proposed changes to subsidy regime	Revised strategy due to be in place by September 2010

5.18 The Medium Term Financial Plan will continue to be updated in the light of these strategies and their implementation.

Use of Reserves

5.19 The Council maintains two broad categories of reserves as shown in **Annex D:**

- A General Fund balance which is held as a working balance and a general contingency against unforeseen events impacting on the Council's financial standing. In view of the risks faces by the Council, but also taking into account other earmarked reserves, The Corporate Director of Finance and Risk Management deems that a £7m balance, is adequate. The prudent level of the HRA balance has been determined as £200 per dwelling and is £2.4m. Based on this assessment, the current predicted level of HRA of £4.729m at the end of March 2010 is deemed by the Corporate Director of Finance and Risk Management to be adequate.

- Earmarked reserves fall into two categories:

    - Capital Reserve, which is generally held at a level equating to 5% of the level of the Capital Programme for any year. To meet this requirement the Capital Reserve necessary at 31st March 2010 would be £3.90m, however, we have maintained the reserve at £4.71m until the accounts for 2009/10 are closed.

    - General Fund Revenue Reserves were projected in a report to the December Cabinet to total £6.057m at 31st March 2010. Key elements of this include the following:

        (1) Insurance Reserve is projected to have a balance of £2.648m at 31st March 2010. This provides contingency cover for uninsured losses and potential future claims. Its future use and level will be informed by the annual valuation of outstanding insurance liabilities.

        (2) Reserves largely retained for service directorate use were projected at £2.609m at 31st March 2010.

      We will not know the final position until the accounts for 2009/10 are finalised. However, in the interim we have reviewed the level of earmarked reserves and released £1.283m back to the General Fund in 2009/10 as reported in the Revenue and Monitoring Reports. It is also intended to release a further £0.800m from earmarked reserves to fund one-off or capital items of expenditure.

5.20 There are opportunity costs to holding this level of reserves and by taking a less prudent approach it would be possible to either reduce Council Tax or increase service provision in the short term. However, as has been demonstrated on many occasions by anticipating changes in the financial and service horizon, either in terms of increased expenditure (e.g. the increase in Pension Fund contributions) or income reductions (e.g. grant losses) the Council is able to smooth the effect of the change and manage its service developments in such a way that year on year the impact on both the customer and/or the taxpayer is minimised.

5.21 Members are therefore asked to endorse the approach of creating reserves to manage emerging risks and liabilities, and to use the one-off monies generated through the interest on these balances to support the capital programme or other one-off investments.

5.22 As part of this Budget Report, Members are asked to adopt the future establishment of three additional reserves which the Corporate Director of Finance and Risk Management believes would be useful to deal with some of the challenges thrown up by the challenges faced in 2010/11 and the period covered by the Medium Term Financial Plan. These are:

1) A restructuring reserve of £500k;

2) An Adult Social Care reserve of £400k

3) A Demand Driven services reserve of £500k

5.23 It is the intention of the Corporate Director of Finance and Risk Management to transfer these into earmarked reserves through the use of any additional underspend identified for 2009/10 or transfer from the General Reserve.

Value for Money/Procurement

5.24 A refresh of the Procurement Strategy was adopted by Cabinet in January 2010. This provides a revised approach to procurement based on a more informed and co-ordinated approach, as well as introducing a corporate governance structure.

5.25 The Council has a strong track record in delivering Value for Money; total Gershon savings up to the end of 2007/08 amounted to £13.938m overall, of which £11.470m were cashable savings (this was against targets of £11.089m over the period 2005/6 – 2007/8, of which £5.545m were required to be cashable savings).

5.26 During the period 2008 – 2010 we are forecasting savings of £5.276m against national performance indicator NI279 (which reports on cashable efficiency savings under the revised methodology adopted by the Department of Communities and Local Government).

5.27 The outcome of the Value for Money approach to Council services results in low levels of Council Tax compared to other unitary authorities. In 2009/10 Milton Keynes Band D level of Council Tax was £1,359.76, £54.24 lower than the average for all English Authorities (£1,414.00). To further strengthen our Value for Money (VFM) approach the Council is developing a more strategic approach which incorporates cross-cutting and directorate based VFM reviews. This approach is set out in more detail in the Medium Term Financial Plan.

Planning Assumptions

- Inflation

5.28 The Medium Term Financial Plan/budget estimates were based on inflation assumptions of 2.5% in the previous budget and MTFP report. The Treasury document "Forecasts for the UK economy" includes forecast for GDP(Gross Domestic Product), CPI (Consumer Price Index), RPI (Retail Price Index) and Unemployment. The most recent Treasury forecast (published 20th January 2010) highlights GDP growth as negative for 2009, although it forecasts to become positive again in 2010.

5.29 Updated forecasts show GDP growth in 2010 but there is a corresponding increase in the rate of inflation. The latest inflation figures for both CPI and RPI increased sharply to 2.9% and 2.4% respectively and many commentators believe that these will rise further although there are contradictory views that inflation may remain low. The Government has a target range of CPI between 2% and 3%.

5.30 However, this is not necessarily the level of inflation impacting on Local Authorities. It must be remembered that some contracts are tied to inflation rates at a particular point in the year, so that the budget strategy must reflect a reasonable forecast of inflation and take into account those changes which are outside the normal budget management arrangements. Examples would be extraordinary movements in costs which cannot reasonably be expected to be managed within service directorate budgets without impacting on services. The Council has a number of contractual inflation rates that would be unaffected by CPI and RPI figures. For example, electricity inflation is budgeted to be 5% in 2009/10 and 10% thereafter but may change with contract renewal in October 2011.

5.31 Pay inflation is likely to be less than assumed this time last year and our Budget planning has taken this into consideration. All of the main national political parties have made public statement that they would freeze some or all public sector salaries if they were elected. Milton Keynes Council is a member of the National Joint Council collective pay bargaining agreement, which will determines the final pay settlements and current indications that settlements of between 0 and 1% should be assumed in budget.

5.32 In respect of this budget, pay inflation is modelled at 1%, which has been calculated on the assumption that Local Government salaries are based on grades with annual increments which are increased through both cost of living awards and growth in spinal column point levels. The roll-out of the Workforce Strategy will provide a framework for our budget planning assumptions on pay increments during the Medium Term financial years 2011/12 to 2013/14, which we discuss briefly in the MTFP report.

- Recharges

5.33 The methodology for recharging central services has been completely revised for 2010/11 and is set out in **Annex C**. The revised recharges methodology will reflect a more appropriate basis for the recharging of services and takes account of both the Best Value Accounting Code of Practice published by CIPFA and any changes necessary to comply with the introduction of International Financial Reporting Standards. This work is an ongoing process which will necessitate changes post the budget. However, for most General Fund services this will have a net nil impact although it may have an impact upon the cost of individual services.

6. General Fund Budget

6.1 As part of the Budget Setting process, various ranges of Council Tax Increases have been modelled, across a range of 2.5% to 0%.

6.2 Officers have presented the budget options included in this report on the basis of a low council tax increase and have assumed a proposed Council Tax increase of 1.5%. Table 1 below provides an overview of how a balanced budget can be achieved in 2010/11 if a council tax increase of 1.5% was agreed.

Table 1 – Budget Funding Options 2010/11

	Assuming 1.5% CT Increase £m
Gross Expenditure	574.23
Gross income	(361.44)
Net Service Budgets	**212.79**
Debt Financing /Asset rentals & HRA Recharges	(14.19)
Sources of Funding	(193.80)
BASE BUDGET SHORTFALL	**4.80**
Savings Proposals (paragraph 6.45 – 6.54)	(10.30)
Available funds to meet pressures	(5.50)
Pressures (Annex J)	5.50
(Surplus)/ Shortfall in Funds after meeting Pressures	**0.00**

6.3 Detailed overview and service subjective analysis of the Budget Proposals 2010/11 included in this report can be found in **Annex B**

- General Fund issues for 2010/11

6.4 The Budget has addressed the following issues arising in 2010/11:

Table 2 – General Fund Issues addressed in 2010/11

Issues	Section reference
The budget proposals also address a number of corporate issues. These are referred to in detail in the budget strategy.	**5**
This budget report introduces Sustainability items into the 2010/11 Base Budget. The benefits and rationale behind these items being introduced are explained in Paragraph 5.15 in the detailed report.	**5**
The Recent Economic Recession / Credit Crunch has had an impact on various aspects of the Councils Resources and these are discussed in detail under Paragraphs 5.28 – 5.32.	**5**
The final settlement received by the Council shows a 3.5% increase in its funding from Central Government compared with 2009/10 and increases the Council's resources by £2.954m	**6**
Inflation has been included on the basis of 1% including incremental progression for pay and we have managed to drive contractual inflation down to between 0% and 1%. Inflation on all external income is included in the revision of Fees and Charges shown in **Annex H.**	
As part of the Budget Setting Proposals various efficiency and savings proposals have been identified by Directorates and these are summarised at paragraph 6.45 – 6.54 and included in detail at **Annex I.**	**6**
The overall cash limits in each Directorate include a number of Investment Proposals which are aligned with our Service Plans and Council priorities. These are summarised at paragraph 6.55 – 6.90 and included in detail at **Annex J.**	**6**

GENERAL FUND RESOURCES

Finance Settlement

6.5 The final Local Government Finance Settlement for 2010/11 was announced on 20th January 2010.

6.6 The indicative settlement outlined above was confirmed in the final Local Government Finance Settlement for 2009/10 announced on 21 January 2009, and in line with Government's policy on multi year settlements showed no change from the position announced earlier. The Government continues to use a floor to limit fluctuations in Formula Grant in a single year.

6.7 The details of Revenue Support Grant and Redistributed Business Rates attributable to Milton Keynes are contained within Table 3 below. The increase in formula grant on a like-for-like basis for 2010/11 is therefore £2.954m or 3.5%.

Table 3: Final Settlement for 2010/11

	2010/11	**2009/10 comparison**
Revenue Support Grant	£11.069m	£15.822m
Redistributed Business Rates	£76.225m	£68.548m
Total	**£87.294m**	**£84.370m**
Increase	£2.954m	£3.222m
Increase as a percentage	3.5%	3.97%

6.8 Issues facing the RSG in future years have been considered as part of our MTFP report and an overview of the forward projections and various modelling scenarios have been included in our MTFP report.

Area Based Grants

6.9 The Area Based Grant (ABG) came into force from the start of 2008/09 financial year. It replaced a variety of specific grants, some of which were previously allocated to partnerships (e.g. the RAG). The ABG is paid to the Local Authority as a general grant. It is not ring-fenced to any particular type of spending or to the Local Strategic Partnership (LSP). The difference between ABG and Revenue Support Grant is that ABG is allocated according to specific policy criteria rather than general formulae.

6.10 In 2010/11 Milton Keynes will receive £15.64m (2009/10 £10.4m) as ABG. This has mainly increased with the movement of the Supporting People Grant (£5.1m) into ABG. This grant is paid from DCLG to Local Authorities.

6.11 In our Budget options, we have assumed no changes in ABG funding support and the related expenditure proposals included within Service Area Budgets have remained unchanged.

6.12 As part of our forward planning, we have assumed that future year financial settlements, in particular Area Based Grant funding, will be reviewed by Central Government as part of CSR10. We have undertaken a risk assessment of these Grants as part of our Medium Term Financial Plan proposals and have outlined possible funding pressures in future financial years.

Dedicated Schools Grant

6.13 The Dedicated Schools Grant (DSG) from central government is paid as a ringfenced specific grant and must be used in support of the Schools Budget. It is the main source of income for the Schools Budget and can be used for no other purpose. It is based upon a per pupil formula using the January School Census data.

6.14 National funding reflects factors such as deprivation which affect urban and rural areas in different ways.

6.15 The formula used by the Government is currently under review, the results of which are currently expected to be announced in July 2010.

6.16 The figures for DSG are as follows:

	2010/11 £m	2009/10 comparison £m	Increase	
			£m	%
Dedicated Schools Grant	163.896	153.392	10.504	6.84

These figures are the latest figures announced by the Government and may change to reflect changes in pupil numbers.

COUNCIL TAX

6.17 The Council Tax decision needs to be made in light of planned income and expenditure of Milton Keynes Council, but also needs to take account of:

(a) Any contributions from the Collection Fund for 2009/10;

(b) The changes to the Council Tax Base agreed by the Cabinet in January; and

(c) The levies and precepts made by relevant bodies

Contribution from the Collection Fund

6.18 The Council anticipates a surplus on the collection fund based on the forecast made as at mid-January 2010. However, the final position will not be known until the accounts are closed in June.

6.19 In line with our agreed financial principles this will be transferred to fund one-off items of expenditure or capital.

The Council Tax Base

6.20 The Cabinet agreed the tax base at its meeting on 26th January 2010. As required by the regulations, the calculations were set out in full in the report to Cabinet. That report is attached as **Annex F**. The Council Tax is set by reference to the number of Band D equivalents in its tax base, and for Milton

Keynes as a whole the tax base contains 81,759.38 Band D equivalents, and assumes a collection rate of 98.85%. Members will be aware that this represents a 0.15 percentage point improvement on the 2009/10 target.

Levies

6.21 The levies fixed by other bodies are shown in the Table 4.

6.22 A number of the levies are calculated using the Authority's Council Tax base, and projected collection rates, for 2010/11 the tax base is calculated as 81,759.38 based on a collection rate of 98.85%.

6.23 The Council's budget and Council Tax for 2010/11 will also include support for two levying bodies.

6.24 The following table summarises the levies for 2010/11 and shows the changes compared with 2009/10.

Table 4: Levies in 2010/11

Levying Authority	2010/11 Levy £m	2009/10 Levy £m	Change £m
Environment Agency - Flood Defence	0.132	0.125	0.007
Buckingham and River Ouzel Internal Drainage Board	0.307	0.285	0.022
Total	**0.439**	**0.410**	**0.029**

Precepts

6.25 The bodies which issue precepts to the Council are:

- Thames Valley Police Authority
- Buckinghamshire and Milton Keynes Fire Authority; and
- Town and Parish Councils within the boundary of Milton Keynes Council

6.26 Each of these advises the Council of the total amount of precept required. In the case of the Police and Fire Authorities this precept will be net of government support as both receive Formula Grant. The amount of Council Tax required is added to the Council's own calculation to give the total Council Tax to be charged.

6.27 In the case of the Town and Parish Councils, the precepts are set out in **Annex O**.

Milton Keynes Council Tax for 2010/11

6.28 A description of the Council Tax regime is set out in **Annex E** as background information for Members. The Council Tax figures set out below are based on a 1.5% increase in the Council Tax and a collection rate of 98.85%.

Consultation Feedback

6.29 Consultation followed the agreement of the draft budget by the Cabinet and ended on 4 February 2010. 3000 Copies of the Budget Consultation leaflet were distributed to stakeholder groups, community organisations as well as council offices across the borough. The leaflet was also made available through the Council's website and articles were placed in the local media.

6.30 Full details of the public consultations and responses are provided in **Annex L.**

Table 5: 2010/11 Council Tax to be raised

	£m
Net Expenditure requirements	194.434
Less: Government Support	(102.939)
Less: Collection Fund Surplus taken to fund one-off items	(0.677)
Milton Keynes Demand on Collection Fund	90.818
Thames Valley Police Authority Precept	Not yet received
Buckinghamshire and Milton Keynes Fire Authority	Not yet received
Town and Parish Councils	Not yet received
Total Amount to be raised from Council Tax	To be added
No. of Band D Equivalent Properties	81,759.38
Band D Elements of Council Tax	**£**
Milton Keynes Council	1,100.80
Thames Valley Police Authority	Not yet received
Buckinghamshire and Milton Keynes Fire Authority	Not yet received
Town and Parish Councils	Not yet received
Total	To be added

6.31 Members should note that decisions around the level of Council Tax increase must be made with reference not only to local political and financial considerations but also taking into account the Government's controls over Local Government spending such as the use of capping powers.

6.32 The revenue expenditure to be met from the Formula Grant Allocation, Council Tax and Collection Fund surplus is known as the budget requirement. The element of this figure to be funded from Council Tax is £90.818m, based on a Council Tax of £1100.80 at the Band D level for Milton Keynes Council purposes in 2010/11. The precepts are added to this figure to produce a total Band D figure.

6.33 The formal resolutions by Council to agree the budget and Council Tax rate are set out in the recommendations to this report. These can only be agreed by Council. The decisions cannot be delegated.

Fees and Charges

6.34 Due to the current economic conditions, we have undertaken a review of our current Fees and Charges. Our review identified areas where we have in the past set unachievable income targets and these have been adjusted in our Base Budget position

6.35 Inflation increases to fees and charges are shown in Annex I. The majority of fees and charges are prescribed nationally, with only a small number of these set locally. The Council's policy is to increase these charges broadly in line with inflation, and this report recommends a general increase in Fees and Charges of 2.5%. There are, however, exceptions where there are policy reason or other specific circumstances which require Fees and charges to be varied.

General Fund Expenditure

6.36 In 2010/11 the Council plans to spend £579.3m on services to Milton Keynes residents. In addition to this the Council expects to receive £366.5m in income from Government grants, Housing Rents and other sources of income. This equates to a net planned expenditure of £212.8m which is funded by Central Government support and Council Tax.

6.37 One of the key challenges in reviewing our budget proposals was the identification of the base budget position and this process involved a review of existing budget assumptions to ascertain a true ongoing base budget position for each directorate.

6.38 As part of the budget process this year we have introduced a new step where budget managers are required to identify the full-time equivalent posts for each service area. This information is currently being validated and will be included within the published budget book and will be made available to the March meeting of the Budget Review Group for scrutiny. This enhancement will enable Members to track establishment changes alongside budget monitoring reports.

6.39 In addition, apart of the 2010/11 budget process, Directorates were asked to identify and justify all investment proposals into the following three categories:

- Unavoidable
- Avoidable
- One-off Expenditure

6.40 Outlined in the individual Directorate Overviews (paragraphs 6.55 to 6.90) are the significant Investment Proposals that are proposed to be funded as part of the 2010/11 Budget and the details of all the Council's Investment Proposals in 2010/11 financial year can be found in **Annex J** of this report.

6.41 Investment proposals of **£5.5m** will be funded across the Directorates with a further **£2.4m** one-off expenditure being funded from identified one-off resources. This represents a total of £7.9m additional investment in Council services in 2010/11 and is summarised in Table 6 below.

Table 6: Investment Proposals 2010/11

DIRECTORATE	2010/11 Unavoidable Expenditure	2010/11 One-off Expenditure
Finance and Risk Management	0.073	0.297
Environment	1.280	1.268
Strategy & Partnership	0.267	0.284
Community Wellbeing	2.252	0.500
Children and Young People's Services	1.641	0.070
TOTAL INVESTMENT PROPOSALS	**5.513**	**2.419**

6.42 The identified funding to meet one-off expenditure has arisen from a review of the Council's Reserve and Balances, which is discussed under paragraph 5.19 to 5.23.

6.43 Reserves and other sources of funding have been reviewed and identified £2.4m one-off resources in 2010/11, these are noted below:

- Debt Financing Reserve
- Insurance Reserve
- Lloyds Court Dilapidation Reserve
- Pension Fund Contribution, increase liability arises in 2011/12
- Collection Fund Surplus

6.44 In line with the financial principles agreed by Members, it is considered prudent by the Corporate Director of Finance and Risk management to use identified one-off resources for expenditure that does not form part of the base budget position. This approach ensure that base budgets are not adjusted for one-off expenditure which is not ongoing and therefore Directorate Service Budgets have not been increased to reflect the £2.4m One-off expenditure identified in Table 6 above. Details of the Council's one-off expenditure proposals for 2010/11 financial year can be found in **Annex K**.

General Fund Savings

6.45 The Chancellor's Pre-Budget Report, which was announced on 9th December 2009, included new efficiency targets across the public sector, which is anticipated will be the message endorsed in the next Comprehensive Spending Review 2010 (CSR10). Pre-empting the announcement, the Smarter Government Report published on 7th December included an expectation that the public sector will deliver £11billion savings by 2012/13, of which a further £5billion is expected to be saved from targeting and prioritising spending.

6.46 In preparing this report each of the Directorates were required to identify and provide robust delivery plans to ensure that targeted savings are identified and achieved during 2010/11 financial year.

6.47 The savings proposals, totalling £10.3m which have been included in this report are summarised in the table below in four key categories:

Table 7: Savings/Income Proposals 2010/11

SAVINGS CATEGORY	**£m**
Commissioning & Efficiency	5.463
Using Alternative Funding	2.599
Service Re-design	1.820
Charges to Users	0.450
TOTAL Savings Proposals 2010/11	**10.332**

Commissioning/Efficiency

6.48 The following revenue budget savings have been or will be secured by procuring services at lower cost or by finding ways to continue to deliver existing services at lower cost (including by reducing staff numbers). Budget savings in this category should be permanent and will have no discernible impact on service levels or service quality.

Table 8: Commissioning/Efficiency Proposals

£m	Description
0.637	Additional income through procurement of MRF contract
0.462	Contractual inflation reduction in respect of Adult Social Services
0.304	Residual savings in respect of Middleton Home
0.230	Restructure of existing refuse and street cleansing contract
0.228	One-off savings in respect of MK Theatre
0.217	End of requirement to fund temporary coachway
0.200	Reduction in contribution to insurance reserve, reflecting improved risk profile
0.200	Efficiency savings from increased use of foster placements
0.297	Removal of unfilled posts
0.183	Efficiency savings across Strategy & Partnerships directorate
0.170	Reduction in provision for court costs and bank charges
0.100	Restructuring of care options within Extracare housing
0.603	Other, including 4% efficiencies on contracts with third sector providers **£75k**; ending of certain "added years" pension payments **£68k**; saving negotiated on NSL parking contract **£50k**; bringing Libraries book purchasing in-house **£50k**.
1.307	Service realignments – identified by directorates
0.325	Service realignments – still to be identified
5.463	**Total savings – Commissioning & Efficiency**

Using Alternative Funding Sources

6.49 The following revenue budget savings will be secured by charging costs to capital or to other appropriate funding sources. Budget savings in this category will have no discernible impact on service levels or service quality. Some of them are "one-off" but that has been taken into account in the Medium Term Financial Plan.

Table 9: Use of Alternative Funding Sources

£m	Description
0.920	Capitalisation of Environment salaries in line with actual staff time spent on projects
0.500	Charging of justifiable planning staff time to Housing Planning Delivery Grant
0.500	One-off contribution from DCLG Growth Fund (duration restricted to period of GAF)
0.257	Charging of Children's Centre teachers to Sure Start grant in 2010/11 only
0.200	Responsive highways maintenance to be funded from one-off resources in 2010/11 only
0.222	Other including management of student awards **£50k**; all other individual items are less than £50k
2.599	**Total savings – Using Alternative Funding**

Service Re-design

6.50 The following revenue budget savings have been or will be secured through management restructuring or through planned service re-design, as a result of which services are delivered differently and at lower cost. Budget savings in this category should be permanent and the service re-designs will in many cases produce enhancements in service quality.

Table 10: Service Re-design Proposals

£m	Description
0.788	Efficiency savings arising from restructure of Environmental Services
0.212	Additional income through provision of commercial service for organic waste
0.113	Efficiencies through "whole systems review" of Older People's Services
0.159	Other, including savings in Older People Intermediate Care through spend-to-save efficiencies and staffing realignments **£75k,** review of Taxi Card scheme **£50k**
0.548	Additional savings identified from service reviews – CYPS **£35k**; Community Wellbeing **£487k**; Strategy & Performance **£26k**
1.820	**Total savings – Service Re-design**

Charges to Users

6.51 The following proposed increases in income will contribute to closing the overall budget gap without having any impact on service quality.

Table 11: Proposals for Charges to Users

£m	Description
0.195	Cost recoveries through efficiencies delivered by the Continuous Improvement Unit
0.126	Additional Crematorium and Licensing income as part of 4% efficiency savings
0.129	Other minor increases in charges.
0.450	**Total savings – Service Re-design**

6.52 The underlying message on the savings that have been put forward by officers was to look at more efficient ways to provide services which cost less but continue to deliver the key Council priorities. Virtually all of the savings required have been delivered without any direct impact on service levels or service quality and this has been achieved by more effective commissioning, procurement and using alternative funding.

6.53 The £10.3m savings proposals included in the budget have been reviewed by Corporate Leadership Team (CLT) and have been subjected to validation and robustness to ensure that delivery plans for each of the detailed savings have been developed. The detail of the individual savings is included in **Annex I**.

6.54 A further challenge that faces the Council is the uncertainty surrounding the financial settlement for future spending years (2011/12 to 2013/14). In the Medium Term Financial Plan, Officers have outlined possible business transformation and service redesigns that will need to be considered to ensure best use of resources to identify further significant efficiencies to help address the challenges ahead.

Impact of General Budget at Directorate Level

STRATEGY & PARTNERSHIPS & CHIEF EXECUTIVE'S

Director – Geoff Snelson / David Hill

Background

6.55 The budget shown below is a financial expression of the Strategy and Partnerships and Chief Executive's Directorate Service Plan.

Table 12: Strategy & Partnerships & Chief Executive's Budget Movement

	£m	£m	£m
2009/10 Budget			**4.496**
Increases			
Inflation	0.011		
Investment Proposals	0.267		
Virements and service changes	0.126		
		0.404	
Decreases			
Virements and service changes	0		
Income Changes	(0.010)		
Efficiency Savings	(0.363)		
		(0.373)	**0.031**
2010/11 Budget			**4.527**

6.56 Virements and service changes include the changes in corporate structure which were undertaken during 2009/10 financial year

6.57 Details of the Efficiency and Savings proposals that have been built into individual Service Budgets are discussed in detail under paragraph 6.45.

Investment Proposals

6.58 Investment proposals of £0.267m have been included in the 2010/11 budget. These items are listed in a summary below. Further details of all investment proposals can be found at **Annex J**.

Table 13: Strategy, Partnerships & Chief Executive Investment Proposals

Investment Proposals in Service Areas	£m
Democratic Services	**0.200**
HR	**0.017**
Regeneration	**0.050**
TOTAL Strategy & Partnerships Investment Proposals	**0.267**

6.59 In addition to the investment proposals outlined above a further £0.284m of one off growth items has been proposed. These items are listed in summary below. Further details of all Investment proposals can be found at **Annex K**.

6.60 It is proposed that one-off expenditure proposals for 2010/11 financial year can be funded from Corporate Resources that have been identified after review of our Reserves (Paragraph 6.43). The specific one-off proposals for Strategy and Performance and Chief Executive's are noted below:

Table 14: Strategy & Partnerships & Chief Executive's One-off Proposals

One- off Proposals	£m
Elections – Additional one-off costs	**0.067**
HR – Project costs to implement Job Evaluation Project	**0.143**
World Cup Bid – Additional costs to support 2018 Bid	**0.065**
Communications – Additional costs for Website redesign	**0.009**
TOTAL Strategy & Partnerships One-Off Proposals	**0.284**

6.61 The Directorate faces a number of key risks and service pressures both for 2010/11 and future years. The risk for future years, are detailed in the MTFP which will be considered by Members together with the Budget 2010/11 Report, at Cabinet and Council meetings in February 2010. The risks and service pressures applicable to 2010/11 are outlined below.

- The Directorate is co-ordinating the overall **Council improvement programme** and implementing specific projects to address key corporate weaknesses in respect of performance management, community engagement and aspects of corporate governance.
- The roll out of the new approach to **performance management** to all parts of the council, including individual staff appraisals, will be a challenge that the Directorate will face and resource during 2010/11 financial year.

- A **new directorate structure** to secure efficiencies and greater effectiveness has largely been implemented, although some appointments remain outstanding. A major pressure is the introduction of a fit for purpose job evaluation scheme which requires all job roles across the council to be evaluated.
- **Democratic services** continue to face pressure from the heavy workload supporting member meetings. The increasing volume of postal votes, the more stringent authentication requirements of local elections, and the duty placed on the Returning Officer to promote democracy, place further pressure on budgets.
- **Regeneration of disadvantaged neighbourhoods** is a high priority and the ambition to roll out further the programme of Neighbourhood Action Plans places significant demands on the capacity of the regeneration team and other council services. Equalities and social cohesion projects are a further priority.
- The Directorate will next year be taking forward the Council's new statutory responsibilities for **economic development** and is leading the partnership response to the impact of the recession, including major projects to promote the city for inward investment purposes, improve skills and create jobs for young people.
- More widely, new versions of the **Sustainable Community Strategy and Local Area Agreement** are to be developed next year, requiring significant partnership and community involvement.

COMMUNITY WELLBEING DIRECTORATE

Director – Lynda Bull

Background

6.62 The budget shown below is a financial expression of the Community Wellbeing Directorate Service Plan.

Table 15: Community Wellbeing Budget Movement

	£m	£m	£m
2009/10 Budget			**62.317**
Increases			
Inflation	0.714		
Investment Proposals	2.252		
Virements and service changes	5.519		
		8.485	
Decreases			
Virements and service changes	0		
Income Changes	(0.256)		
Efficiency Savings	(2.397)		
		(2.653)	**5.832**
2010/11 Budget			**68.149**

6.63 Virements and service changes include the changes in corporate structure which were undertaken during 2009/10 financial year.

6.64 Details of the Efficiency and Savings proposals that have been built into individual Service Budgets are discussed in detail under paragraph 6.45.

Investment Proposals

6.65 Investment proposals of £2.252m have been included in the 2010/11 budget. These items are listed in a summary below. Further details of all investment proposals can be found at **Annex J**.

Table 16: Community Wellbeing Investment Proposals

Investment Proposals in Service Areas	**£m**
Housing General Fund	**0.036**
Leisure, Learning & Culture	**0.061**
Adult Social Care - demography	**1.976**
Adult Social Care – modernising Older People's Services	**0.099**
Performance Improvement – IT system implementation	**0.080**
TOTAL Community Wellbeing Investment Proposals	**2.252**

6.66 In addition to the investment proposals outlined above a further £0.500m of one off growth items has been proposed, which are not included in the Directorate Base Budgets. These items are listed in summary below. Further details of all Investment proposals can be found at **Annex K**.

6.67 It is proposed that one-off expenditure proposals for 2010/11 financial year can be funded from Corporate Resources that have been identified after review of our Reserves (Paragraph 6.43). The specific one-off proposals for Community Wellbeing are noted below:

Table 17: Community Wellbeing One-off Proposals

One- off Proposals	**£m**
Adult Care Services – One-off spend to review and modernise Older People's Services	**0.500**
TOTAL Community Wellbeing One-Off Proposals	**0.500**

6.68 The Directorate faces a number of key risks and service pressures both for 2010/11 and future years. The risk for future years, are detailed in the MTFP Plan which will be considered by Members together with the Budget 2010/11 Report, at Cabinet and Council meetings in February 2010. The risks applicable to 2010/11 are outlined below.

- In Community Wellbeing significant pressures relate to **Adult Social Care** and primarily result from the increase in the numbers of older people. Across the country the 60 + age group is expected to increase by 56% by 2031 but in Milton Keynes it will grow by about 150%. This effectively represents year on year increase until 2016 of 4-5%.

- The **national transformation programme for social care** requires local authorities to commission and provide more preventative services and for people to have more choice and control about their support. Therefore the Council has to manage significant and increasing demographic pressures in the context of increasing needs, higher expectations and service improvements.

- In **Learning, Leisure and Culture** pressures will continue to be experienced due to the majority of services not being a statutory function and yet there is an broader political and community aspiration and expectation that the Council should continue to invest significantly in developments. This is not feasible but the Council will continue to undoubtedly to play a key leadership and partnership role. This is important to recognise and must be maintained; particularly as the majority of cultural services are not provided directly by the Council.

- A continuing pressure will also be repairing and maintaining the **Council's housing stock**. This is an operational priority with the arrangements being actively reviewed but the reality is that approximately one third of this stock requires improvements and continued investment is needed to achieve Decent Home standards. This is reflected in the capital budget proposals outlined in Section 7 and the Housing Revenue Account (Section 9). The Council also needs to play a stronger leadership role in housing developments in general in order to find longer term sustainable solutions to the need for more homes of a good standard.

- Responsibility for the **Community Safety Partnership (Safer MK)** has recently transferred to the Community Wellbeing Directorate. This area of work is heavily reliant on grant and partnership funding and it is inevitable that pressures will result from funding changes, pressures on partners and increasing national and community expectations. Focus will need to be on greater prioritisation by SaferMK and more awareness of the broader contribution to Community Safety by partner agencies core activities.

CHILDREN AND YOUNG PEOPLE'S SERVICES

Director – Gail Tolley

Background

6.69 The budget shown below is a financial expression of the Children and Young People's Services Directorate Service Plan.

Table 18: Children and Young People's Services Budget Movement

	£m	£m	£m
2009/10 Budget			**57.273**
Increases			
Inflation	0.157		
Investment Proposals	1.641		
Virements and service changes	0.770		
		2.568	
Decreases			
Virements and service changes	0		
Income Changes	(0.010)		
Efficiency Savings	(1.542)		
		(1.552)	**1.016**
2010/11 Budget			**58.289**

6.70 Virements and service changes include the changes in corporate structure which were undertaken during 2009/10 financial year.

6.71 Details of the Efficiency and Savings proposals that have been built into individual Service Budgets are discussed in detail under paragraph 6.45.

Investment Proposals

6.72 Investment proposals of £1.641m have been included in the 2010/11 budget. These items are listed in a summary below. Further details of all investment proposals can be found at **Annex H**.

Table 19: Children and Young People's Investment Proposals

Investment Proposals in Service Areas	£m
Directorate Wide - Improvement Plan	**0.401**
Specialist Services (Children's Social Care) – increase in referrals, assessment and care	**1.151**
Projected growth in services	**0.089**
TOTAL Children & Young Peoples Services Investment Proposals	**1.641**

6.73 In addition to the investment proposals outlined above a further £0.070m of one off growth items has been proposed. These items are listed in summary below. Further details of all One-Off Investment proposals can be found at **Annex K**.

6.74 It is proposed that one-off expenditure proposals for 2010/11 financial year can be funded from Corporate Resources that have been identified after review of our Reserves (Paragraph 6.43). The specific one-off proposals for Children & Young People's Services are noted below:

Table 20: Children and Young People's One-off Proposals

One- off Proposals	£m
School Meals	**0.037**
Training Social Care Workers	**0.033**
TOTAL Children & Young Peoples Services One-Off Proposals	**0.070**

6.75 The Directorate faces a number of key risks and service pressures both for 2010/11 and future years. The risk for future years, are detailed in the MTFP Plan which will be considered by Members together with the Budget 2010/11 Report, at Cabinet and Council meetings in February 2010. The risks applicable to 2010/11 are outlined below.

6.76 The CYPS Directorate has to resource a Performance Improvement Plan to meet Ministerial targets as part of the DCSF Intervention.

- **Universal Services** Over half of the actions in the Performance Improvement Plan need to be addressed by sections of this division. Traditionally this division has been understaffed and has relied on the use of external consultants and associates. This has been expensive and has led to a lack of cohesive action.

- **Targeted Services** will meet the current priorities within CYP Plan and service plans without any additional pressures on the budget. However, the emerging inclusion strategy will have a significant consequence for the redeployment of existing resources and there may be pressure to find additional revenue at the outset until these resources can be relinquished from existing commitments.

- **Specialist Services -** A substantial investment in social work and care services is needed to make sure that vulnerable children in Milton Keynes remain safe. There has been a large increase in the numbers of referrals about children in need, leading to more assessments and care proceedings in the last year. The impact of this is that there are 16% more young people in care than in March 2009. More social workers are needed to respond to this large increase in demand. It is difficult to recruit experienced social workers and the Council has to fund agency staff to ensure that there is not unallocated work and children are not left at significant risk of harm. In addition, some of this investment is to meet the growing demand for more support and respite for disabled children.

- **Partnerships, Commissioning & Performance -** As a result of us having to **re-let the school meals contract** to provide a school meal service we had to undertake to provide the new contractor with access to some school based kitchen facilities at no additional cost. This is a one-off allocation will be used to pay unavoidable utility and equipment costs associated with providing these kitchen facilities. It is prudent for us to begin to set aside resources to demonstrate our commitment.

ENVIRONMENT DIRECTORATE

Director – Brian Sandom

Background

6.77 The budget shown below is a financial expression of the Environment Directorate Service Plan.

Table 21: Environment Budget Movement

	£m	£m	£m
2009/10 Budget			**48.766**
Increases			
Inflation	0.258		
Investment Proposals	1.280		
Virements and service changes	0.579		
		2.117	
Decreases			
Virements and service changes	0		
Income Changes	(0.012)		
Efficiency Savings	(5.384)		
		(5.396)	**(3.279)**
2010/11 Budget			**45.487**

6.78 Virements and service changes include the changes in corporate structure which were undertaken during 2009/10 financial year.

6.79 Details of the Efficiency and Savings proposals that have been built into individual Service Budgets are discussed in detail under paragraph 6.45.

Investment Proposals

6.80 Investment proposals of £1.280m have been included in the 2010/11 budget. These items are listed in a summary below. Further details of all investment proposals can be found at **Annex J.**

Table 22: Environment Investment Proposals

Investment Proposals in Service Areas	£m
Planning	**0.015**
Regulatory Services	**0.067**
Waste	**0.802**
Transport & Highways	**0.155**
Landscape	**0.030**
Parking	**0.211**
TOTAL Environment Investment Proposals	**1.280**

6.81 In addition to the investment proposals outlined above a further £1.268m of one off growth items has been proposed. These items are listed in summary below. Further details of all One-off Investment proposals can be found at **Annex K**

6.82 It is proposed that one-off expenditure proposals for 2010/11 financial year can be funded from Corporate Resources that have been identified after review of our Reserves (Paragraph 6.43). The specific one-off proposals for Environment are noted below:

Table 23: Environment One-off Proposals

One- off Proposals	£m
Waste Procurement Projects	**0.778**
Planning reduction in income due to current economic climate	**0.270**
St Mary Magdalene Tower, obligation to maintain building	**0.020**
Responsive Maintenance	**0.200**
TOTAL Environment Investment One-Off Proposals	**1.268**

6.83 The Directorate faces a number of key risks and service pressures both for 2010/11 and future years. The risk for future years, are detailed in the MTFP Plan which will be considered by Members together with the Budget 2010/11 Report, at Cabinet and Council meetings in February 2010. The risks applicable to 2010/11 are outlined below.

- The key pressures for the Environment Directorate are centred around the costs associated with **Waste,** and **volatile income** streams. Whilst the costs of introducing organics treatment, which is being undertaken as a joint working project with Northamptonshire County Council, are high this contract will reduce the Council's future liabilities for LATS and landfill disposal costs which otherwise would be considerably higher than those budgeted

- The Environment Directorate has an external income budget of approx £18m. Many of these income streams are dependant on the economic climate and changing demand. Income budgets for **Development Control** and **Land Charges** have been reduced to reflect current income levels. In addition to pressures in the Planning Service, car parking income is also lower than anticipated and therefore at present the budget has no scope for inflationary increases.

- The **highway network** is a highly visible community asset which not only contributes to effective transport access but also forms a fundamental part of the economic, social and environmental well-being of a local area. The Directorate will continue to maintain and repair this valuable asset, as part of its budget proposals for 2010/11 financial year as prescribed in the statutory obligation under The Highways Act 1980.

FINANCE AND RISK MANAGEMENT DIRECTORATE

Director – Tim Hannam

Background

6.84 The budget shown below is a financial expression of the Finance and Risk Management Directorate Service Plan.

Table 24: Finance and Risk Management Budget Movement

	£m	£m	£m
2009/10 Budget			**30.070**
Increases			
Inflation	0.539		
Investment Proposals	0.073		
Virements and service changes	0.065		
Income Changes	0.116		
		0.793	
Decreases			
Virements and service changes	0		
Income Changes	0		
Efficiency Savings	(0.568)		
		(0.568)	**0.225**
2010/11 Budget			**30.295**

6.85 Virements and service changes include the changes in corporate structure which were undertaken during 2009/10 financial year.

6.86 Details of the Efficiency and Savings proposals that have been built into individual Service Budgets are discussed in detail under paragraph 6.45.

Investment Proposals

6.87 Investment proposals of £0.073m have been included in the 2010/11 budget. These items are listed in a summary below. Further details of all investment proposals can be found at **Annex J**.

Table 25: Finance and Risk Management Investment Proposals

Investment Proposals in Service Areas	£m
ICT	**0.061**
Estates	**0.012**
TOTAL FaRM Investment Proposals	**0.073**

6.88 In addition to the investment proposals outlined above a further £0.297m of one off growth items has been proposed. These items are listed in summary below. Further details of all Investment proposals can be found at **Annex K**.

6.89 It is proposed that one-off expenditure proposals for 2010/11 financial year can be funded from Corporate Resources that have been identified after review of our Reserves (Paragraph 6.43). The specific one-off proposals for Finance and Risk Management are noted below:

Table 26: Finance and Risk Management One-off Proposals

One- off Proposals	£m
ICT – GovConnect additional costs	**0.054**
Estates – reduction in income due to recession	**0.152**
Anti-Fraud – new Benefits Fraud investigator post	**0.040**
Strategic Finance – IFRS additional costs	**0.051**
TOTAL FaRM One-Off Proposals	**0.297**

6.90 The Directorate faces a number of key risks and service pressures both for 2010/11 and future years. The risk for future years, are detailed in the MTFP Plan which will be considered by Members at Cabinet and Council in February 2010. The risks applicable to 2010/11 are outlined below.

- 2010/11 will see the roll out of our **Procurement Strategy**, which was considered by Cabinet on 26th January 2010. It will be necessary to ensure that the strategic direction of procurement across the Council is managed and all corporate procurement initiatives are supported by all Service Areas.
- It is necessary that we continue with our programme of ensuring our resilience of our **ICT** systems. This requires additional investment and will also require that the Council improves current security requirements in line with Central Government criteria to meet "GovernmentConnect" compatibility.
- The introduction of **International Financial Reporting Standards [IFRS]** will require that the Council reviews its current financial reporting and where necessary that the reporting arrangements are updated to meet the new IFRS requirements.

- The current economic recession has had a significant impact on our **Corporate Estate Portfolio**, an ongoing challenge will be to maintain income during the recession for the Council's let portfolio and Sponsorship, keeping abreast of growth and regeneration opportunities.

7. Capital

7.1 The process undertaken to draft the capital programme has been as follows:

- Project mandates and outline business cases based on Asset Management Plans have been completed for all 2010-11 capital programme bids, and continuation schemes have previously been agreed through the project appraisal process.

- The outline business cases were prioritised by Directorate Management Teams in conjunction with the appropriate portfolio holder, matching outputs from the proposed schemes to service priorities.

- Those projects with the highest priority from DMTs were reviewed by Corporate Leadership Team to ensure co-ordination of service priorities and council priorities.

- A full Project Initiation Document (PID) will be prepared for approved projects, setting out detailed milestones for delivery of outcomes.

- The projects listed at **Annex G** are proposed for inclusion in the Capital Programme in February.

7.2 The project mandate and business case demonstrates how each scheme will contribute to the Council's corporate priorities, to statutory duties and legal commitments, partnership working, performance indicators, service strategies and plans, equalities, other corporate initiatives, national priorities and targets, and environmental impacts. These factors are all taken into account in formulating a proposed capital programme that, within the resources available, will best target the Council's corporate priorities and contribute to its Capital Strategy.

7.3 During 2009/10, the Council's capital processes have been changed to introduce a two-stage approval for each scheme. Cabinet is asked to give resource allocation for the projects in the 2010/11 capital programme. At subsequent meetings, separate spend approval will be requested for projects through the Capital Programme Update Reports as funding is confirmed as received and available. As officers cannot enter into commitments to spend until this second stage has been approved, capital programme (that is, resource) approval can be given without confirmation of funding.

Capital Programme

7.4 The capital programme for 2010/11 is attached at **Annex G**.

7.5 The programme is made up of continuation schemes from prior years, for which approval has already been given, and new bids for 2010/11 starts for which financing has been identified. **Annex G2** gives more detail for each of the schemes, with new bids highlighted in grey.

7.6 Cabinet will be advised of the 2009/10 slippage position, and its impact on the 201011 capital programme at their June 2010 meeting, following the closure of the 2009/10 accounts.

2010/11 Funding Issues

7.7 The total value of new bids for the 2010/11 programme amounts to £30.624m. The value of continuation costs of schemes begun in 2009-10 and prior years is £47.260m. The combined total of bids is £77.884m.

7.8 Anticipated funding for 2010/11 is £97.751m, with a further £3.000m prudential borrowing requested to address HRA backlog. Of this, £21.293m is funding set aside for completion of projects in future years, reducing funds available for use on the 2010/11 draft programme to £79.458m.

7.9 Available resources for the 2010/11 programme are further reduced by the need to fund forecast over-spending in 2009/10 on the projects listed at Annex C, totalling £3.355m. This reduces funding available to £76.103m.

7.10 Projects to be funded from the Strategic Allocation Pot, supported by SCE(R) top-sliced from departmental allocations, currently total £5.545m. However, only £3.764m of funding has currently been identified leaving a shortfall of £1.781m. The Corporate Director for Finance & Risk Management proposes that the unfunded schemes should be approved, to be funded temporarily from expected slippage through new resources identified during 2010/11 or eventually through drawing on 2011/12 resources.

7.11 The Housing Revenue Account (HRA) has made use in 2009-10 of a government option to use £3.000m of the 2010/11 Major Repairs Allowance in advance. To replace 2010/11 capital funding for the HRA to the level at which it would otherwise have been officers are seeking member approval for an additional £3.000m prudential borrowing (with an estimated future annual revenue cost of £0.225m) to carry out part of this work.

7.12 We are in the third year of the period covered by the Comprehensive Spending Review undertaken in 2007. As a result of this review the Government announced three year allocations of Supported Capital Expenditure allocations. This has given greater certainty of the funding available for 2010/11, but allocations for subsequent years are likely to be reduced because of wider public funding considerations.

7.13 The Council's capital funding strategy is set out in the Capital Strategy 2010/11 to 2014/15. The main points are as follows:

(a) 90% of Supported Capital Expenditure (Revenue) Single Capital Pot Element (i.e. the supported borrowing allocation) is earmarked to the relevant service.

(b) 10% of the Single Capital Pot Element (i.e. the supported borrowing allocation) is placed within the Strategic Allocation Pot and used to fund schemes from across the programme at members' discretion.

(c) Similarly, 10% of Single Capital Pot grants (as opposed to borrowing allocations) is placed within the Strategic Allocation Pot and used to fund schemes from across the programme at members' discretion.

(d) Prudential borrowing is considered as a capital funding source only where the revenue costs of borrowing can be met from within existing budgets, or from revenue savings or income streams arising from the proposed project.

(e) General Fund capital receipts are not allocated or committed prior to receipt, unless inextricably linked to a specific project.

(f) General Fund capital receipts received during the year will be added to the Capital Reserve until such time as that constitutes 5% of the total size of the capital programme (see para 2.1(c) above). Thereafter they will accrue to the Strategic Allocation Pot and be taken into account as a funding source for the following financial year, subject to the impact of their debt financing charges on the revenue budget.

(g) Separate reserves are maintained for each of the service blocks specifically to allow unspent monies to be carried forward to support known shortfalls in future year commitments in the ongoing programme.

(h) 100% of all forecast and actual HRA useable capital receipts are earmarked for HRA capital expenditure to meet the Decent Homes target.

(i) In line with the statutory requirement, the Major Repairs Reserve is entirely earmarked for HRA capital expenditure on the Council's housing stock.

7.14 Funding ring-fenced to a specific scheme or service area is allocated 100% to the relevant scheme or service. This includes supported borrowing linked to specific schemes or government initiatives, grants, third party contributions, parking income and revenue contributions. Section 106 contributions from developers are normally ring-fenced to a particular type of scheme in a designated geographical area.

7.15 It is proposed that £4.7m uncommitted capital receipts be kept in reserve during 2010/11 for the prudent management of the authority's financial position, rising to 5% of the overall programme in accordance with the Capital Strategy.

7.16 The value of the total proposed capital programme is £80.484m, as set out in the table overleaf.

Table 27: Summary Proposed Capital Programme 2010/11

Directorate	£m
Education	25.775
Transport	18.917
Environmental, Protective and Cultural	13.445
Community Wellbeing GF	2.524
Housing Revenue Account	11.678
Strategic Allocation Pot funded	3.764
Sub-Total	**76.103**
Strategic Allocation Pot unfunded at this time	1.781
Total Draft Programme	**77.884**

7.17 The table below outlines financing of the draft capital programme for 2010/11:

Table 28 Funding for Capital Programme 2010/11

Funding source	£m
Government supported borrowing allocations (SCE (R))	20.411
Capital receipts	2.419
Major Repairs Reserve	4.897
Other government grants	37.161
Third party contributions	5.743
Revenue contributions	3.002
Prudential borrowing	5.822
Sub-total	**79.458**
Applied to 2009-10 overspends	(3.355)
Funding available for programme	**76.103**

8. The Prudential Code

Background

8.1 The Prudential Code for Capital Finance in Local Authorities (the Code) was implemented in 2004/05. This is a professional Code that sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects without any imposed limit as long as they are affordable, prudent and sustainable. The Code allows the Council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

8.2 The Council's capital investment is limited by the Code's requirement that borrowing is sustainable, affordable and prudent and the overarching requirement that local authorities set balanced revenue budgets. The Government also has reserve powers to restrict aggregate local authority borrowing for national economic reasons and to intervene to restrict individual local authority's borrowing.

8.3 Local authorities' capital investment is supported through capital grants which are also known as Supported Capital Expenditure (Capital Grant) (SCE(C)) and by revenue grant paid towards the costs of borrowing known as Supported Capital Expenditure (Revenue) (SCE(R)). SCE(R) allocations are subdivided into single capital pot, which authorities can use for any purpose, and ring fenced elements, where authorities have to follow the conditions set down by the Government. In principle the Government pays additional Formula Grant for the borrowing costs associated with SCE(R) allocations.

8.4 The Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators which for housing authorities are separated into HRA and non-HRA elements. These indicators are mandatory but can be supplemented with local indicators if this aids interpretation.

8.5 The indicators are purely for internal use by the Council because any comparisons with other councils would not be meaningful. However, comparing the level of the indicators over time does add value to the capital and treasury management process. Note also that the code only requires projections up to 2012/13.

Capital Expenditure and the Capital Financing Requirement

8.6 The 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. Movement between years will be influenced by in-year capital expenditure and provision for repayment of debt.

8.7 The expected movement in the CFR over the next three years is dependent upon the level of supported and unsupported capital expenditure decisions taken during the budget cycle. Supported borrowing is borrowing that is backed by SCE(R) allocations.

8.8 The Prudential Code allows local authorities to undertake unsupported borrowing so they can deliver projects such as spend to save schemes (which may have previously been limited by the credit approval system) or take decisions to direct resources from revenue to capital to enable service enhancements. However before using unsupported borrowing the authority must be satisfied that the additional borrowing costs can be afforded within future year's budgets.

8.9 In the draft capital programme for 2010/11, £5.8m of unsupported borrowing is to be used to finance capital projects commencing in 2010/11.

8.10 The capital expenditure set out in the tables below is based on the level of capital resources that can be realistically estimated over the next three years. Decisions on the financing of capital expenditure are taken each year during the year-end closure of accounts process on the basis of all the relevant information available at that time.

8.11 In 2008/09, the Government agreed a three year Formula Grant Settlement and also provided information on capital grants for the three year period to 2010/11. The level of Government support for capital expenditure following this period is uncertain. For other sources of funding, such as capital receipts it is only possible to make broad estimates of the likely income.

8.12 There is an element of the programme in the next three years for which resources have not been specifically identified but where there remains a reasonable expectation that they will be, by the time the schemes need to be committed. If additional resources are not realised, decisions will be required to reduce capital expenditure for the year in question via further prioritisation of the schemes.

8.13 Tables 29 and 30 summarise the proposed level of capital expenditure, the means of funding that expenditure and projections of the CFR over the next three years.

Table 29: Capital Expenditure and Financing 2009/10 to 2013/14

	2009/10 Latest Estimate £m	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
HRA	15.784	11.678	10.849	9.477
Non-HRA	100.293	66.206	43.800	74.200
Total Expenditure	**116.077**	**77.884**	**54.649**	**83.677**
Borrowing - supported	37.886	20.411	17.113	16.994
Borrowing - unsupported	3.558	5.822	0.720	1.000
Capital receipts	6.263	2.360	4.220	12.220
Capital grants	54.658	42.060	19.494	24.784
Capital reserves	0.659	0.059	-	-
Revenue	4.317	3.003	2.080	0.708

	2009/10 Latest Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Planning gain/other 3rd party	7.807	5.743	1.260	2.100
To be identified	0.929	1.781	9.762	25.871
Applied to 2009/10 overspends	-	(3.355)	-	-
Total Financing	**116.077**	**77.884**	**54.649**	**83.677**

Table 30: Capital Financing Requirement and External Debt 2009/10 to 2013/14

	2009/10 Latest Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
CFR – Non-HRA	261.615	271.541	264.808	259.518
CFR – HRA	79.970	80.719	81.468	82.217
Total CFR	**341.585**	**352.260**	**346.276**	**341.735**
Net CFR movement	-	10.675	(5.984)	(4.541)

Limits to Borrowing Activity

8.14 The first key control over the Council's activity is to ensure that over the medium term net borrowing is only for a capital purpose. The council needs to ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for 2010/11 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 31: Net Borrowing Compared to Capital Financing Requirement

	2009/10 Latest Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Net Borrowing	314.704	320.204	340.204	340.204
CFR	341.585	352.260	346.276	341.735

8.15 The Corporate Director of Finance and Risk Management confirms that the council will comply with the requirement to keep net borrowing below the Capital Financing Requirement over the next 3 years. The estimated movement in net borrowing and the CFR is set out in Table 3 and takes into account current commitments, existing plans, and the proposals in the budget report. The increase in net borrowing over the period reflects both the anticipated increase in the CFR and prudent assumptions on the future movement of revenue reserves and balances.

8.16 A further two Prudential Indicators assist in exercising control of the overall level of borrowing which supports capital investment. These are:

- **Authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- **Operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

8.17 The Council is asked to approve the following Authorised and Operational Limits, which have been calculated in the case of the Operational Limit on the basis of anticipated cash flow and the potential increase in the Capital Financing Requirement, and in the case of the Authorised Limit allowing a margin for unlikely (but possible) scenarios affecting the timing of grant receipts, Council Tax collection and capital receipts:

Table 32: Authorised Limit and Operational Boundary

	2009/10 Latest Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Authorised limit for external debt				
Borrowing	414.500	419.000	439.000	439.000
Other long term liabilities	0.500	1.000	1.000	1.000
Total	**415.000**	**420.000**	**440.000**	**440.000**
Operational boundary for external debt				
Borrowing	394.500	399.000	419.000	419.000
Other long term liabilities	0.500	1.000	1.000	1.000
Total	**395.000**	**400.000**	**420.000**	**420.000**

Affordability Prudential Indicators

8.18 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall council finances. The Council is asked to approve the following indicators:

- **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream, separately for housing and non-housing services. The higher ratio for the HRA reflects the fact that borrowing costs on past capital expenditure on council housing represent a significant proportion of the HRA revenue budget. However these costs are fully met by housing subsidy.

  The figures used for General Fund net revenue stream are dependent upon the revenue budget to be agreed by Council and are therefore subject to change. If applicable, updated figures will be provided to Cabinet and Council at the earliest opportunity.

  The estimates of financing costs allow for the level of supported borrowing set out in the capital expenditure plans.

Table 33: Ratio of financing costs to net revenue stream

	2009/10 Latest Estimate %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
Non-HRA	10.83	11.24	11.75	11.67
HRA	26.74	26.96	25.74	25.49

- **Estimates of the incremental impact of capital investment decisions on the Council Tax** – this indicator identifies the trend in the net revenue cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing commitments and current plans. Although the indicator is expressed as an amount of council tax this does not mean that the capital investment decisions will result in an actual increase in council tax of this amount. The definition of the indicator does not allow for increases in Formula Grant that would normally arise as a result of the new supported borrowing. In practice supported borrowing will only be used for non-HRA schemes if sufficient revenue savings are identified to meet the ongoing financing costs. There will therefore be no net effect on council tax. The other possible revenue consequences of the capital programme such as running expenses are also assumed to be revenue neutral in this calculation.

Table 34: Incremental impact of capital investment decisions on the Band D Council Tax

	Proposed Budget 2010/11	Forward Projection 2011/12	Forward Projection 2012/13
Council Tax – Band D	£4.19	£5.00	£4.82

- **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – this indicator identifies the trend in the cost of proposed changes in the housing capital programme compared to the Council's existing commitments and current plans, expressed as a change in weekly rent levels. Unlike the previous Council Tax indicator which does not allow for increases in Formula Grant, the Housing Rent indicator does allow for increases in housing subsidy. Since there is no unsupported borrowing for HRA capital expenditure the additional costs are fully covered by housing subsidy and the increase in the HRA budget requirement is therefore zero in all years.

Table 35: Incremental impact of capital investment decisions on housing rents

	Proposed Budget 2010/11	Forward Projection 2011/12	Forward Projection 2012/13
Housing Rents	£0.36	£0.35	£0.35

Treasury Management Prudential Indicators and Limits on Activity

8.19 The Council's Treasury Management Strategy is attached as **Annex M**. There are four treasury prudential indicators, as follows.

(i) **Upper limits on variable rate exposure –** This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

(ii) **Upper limits on fixed rate exposure –** Similar to the previous indicator this covers a maximum limit on fixed interest rates based on net debt.

(iii) **Maturity structures of borrowing –** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

(iv) **Total principal funds invested for greater than 364 days –** These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

8.20 The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However if these are set to be too restrictive they will impair the opportunities to reduce costs.

8.21 The Council has been recommended to approve the following prudential indicators:

Table 36: Upper limits on variable interest

		Upper Limit £m
Latest	2009/10	110.000
Estimate	2010/11	111.000
Estimate	2011/12	116.000
Estimate	2012/13	116.000

Table 37: Upper limits on fixed interest

		Upper Limit £m
Latest	2009/10	400.000
Estimate	2010/11	405.000
Estimate	2011/12	425.000
Estimate	2012/13	425.000

Table 38: Lower and upper limits for the maturity structure of borrowing for 2010/11

	Lower Limit	Upper Limit	Existing loans as at January 2010	
	%	%	£m	%
Under 12 months	0	15	0	0
1-2 years	0	15	15.000	5.3
2-5 years	0	50	50.000	17.6
5-10 years	0	50	21.150	7.5
Over 10 years	50	100	197.054	69.6

Table 39: Upper limits on investments for periods longer than 364 days

	Upper Limit £m
Latest 2009-10	30.000
Estimate 2010-11	30.000
Estimate 2011-12	30.000
Estimate 2012-13	30.000

9. Housing Revenue Account

9.1 Cabinet on 26th January 2010 agreed the recommendations in the 2010/11 Housing Revenue Account Budget including Tenants Rent and Service Charges. The full report considered by Cabinet in January is attached as **Annex N**. The report increased average rents in 2010/11 by 0.73% and service charges by an average of 2.75%. These increases were in line with the HRA MTPF rent strategy and Central Government rent restructure guidelines.

9.2 The repairs budget for 2010/11 has been increased by £0.870m to reflect the underlying pressure identified from the 2009/10 forecasts. However, this increase in budget is potentially not sustainable in the longer term (requiring £3.5m over the four years).

9.3 To support the completion of the Decent Homes programme and other ongoing pressures within the capital programme, there is a proposal to undertake £3m of prudential borrowing which will require ongoing funding from revenue at an annual cost of approximately £0.225m

9.4 The following savings for 2010/11 have been identified:

- Efficiency savings of £0.076m have been achieved which are operational adjustments whilst the level of service within the management and special services areas are maintained in line with current standards.

- A further potential saving of £0.062m in respect of grass cutting service for certain groups of tenants will impact on approximately 800 users and will require a policy decision to cease this service. This is the subject of a separate report to January Cabinet.

- Bad debt provision has been reviewed and reduced in line with rent increases, the profile of the leasehold window and digital TV works and associated recharges to tenants and aged debt analysis.

10. ROBUSTNESS/RISKS

10.1 The Council has identified six areas of Strategic Risks. Table 40 sets these out, along with references to where they are addressed within the budget process.

Table 40: Where Strategic Risks are addressed within the budget process

Strategic Risk	Reference
To secure a Commitment to and a Consistent application of a Shared Corporate Vision	Para 5.15 – Sustainability issues includes reference to Council Plan and Council Priorities.
To ensure that MKC is able to deliver its Community Leadership role	Para 5.3 – Addressing impact of the Credit Crunch. Para 5.8 – 5.12 – Resourcing the Council's Priorities.
That the Council's operations are supported by a sustainable Medium Term Financial Plan	MTFP report elsewhere on this agenda. Para 5.15 – Sustainability issues.
That the Council demonstrates continuous improving outcomes	Para 6.32 – 6.79 sets out the approach taken to reduce expenditure while protecting service users. Annex J shows where the Council is investing in services.
That there is effective management of the Council's Projects	Section 7 covers the revised arrangements for Capital Projects.
CYPS Improvement Programme	Para 6.65 - 6.72 give the CYPS directorate position and the how the Improvement Programme is being resourced.

10.2 Where a clear financial impact has been indentified, this has been dealt with through the actions set out in this report or the MTFP report (which is also being considered at this meeting). Table 40 sets out how the budget process has addressed the Strategic Risk areas agreed by the Council and the Directorate Sections of the report in Section 6 also consider areas of risk.

10.3 The budget has been developed at cost centre level based on information supplied by Directorates and subject to scrutiny by the Strategic Finance team within the Finance and Risk Management Directorate. All reasonable steps have been taken to ensure that the budget is robust, however it is inevitable there will be a number of risks around the budget submissions from Directorates. These have been included within the sections related to Directorate budgets. These risks will continue to be monitored through the Budget Monitoring process and review by the Budget Review Group.

11. Annexes

11.1 The following are appended to this report

Legal Framework	Annex A
Budget Summaries	Annex B
Recharges Methodology	Annex C
Review of Reserves	Annex D
Council Tax Regime	Annex E
Council Tax Base	Annex F
Capital Programme	Annex G
Fees and Charges	Annex H
Savings Proposals	Annex I
Investment Proposals	Annex J
One-off Proposals	Annex K
Responses to Consultation Exercise – To follow	Annex L
Treasury Management Strategy	Annex M
Housing Revenue Account	Annex N
Parish Precepts 2010/11 – To follow	Annex O

12. Implications

12.1 Policy

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

12.2 Resources and Risk

Yes	Capital	Yes	Revenue	No	Accommodation
No	IT	Yes	Medium Term Plan	Yes	Asset Management

12.3 Carbon and Energy Management

12.4 Legal

Decisions on the budget and the calculation of the Council Tax are ones which only the full Council can make on the recommendation of the Mayor and Cabinet.

When considering decision on the budget and the level of Council Tax, Members should have regard to the legal framework for such decisions as outlined in Annex 1. Adopting the recommendations set out in this report will enable the Council to set a lawful balanced budget.

12.5 Other Implications

No	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
No	Carbon and Energy Policy				

Background Papers: Pre-Budget Report (9th December 2009)

Medium Term Financial Planning 2010/11 to 2013/14 (Cabinet July 2009)

Budget Monitoring and Financial Improvement Programme (Cabinet September 2009)