Wards affected:

All Wards

ITEM 4a

BUDGET SCRUTINY COMMITTEE CHALLENGE MEETINGS

JANUARY 2016

DRAFT COUNCIL BUDGET 2016/17

Responsible Cabinet Member:	Councillor Middleton, Cabinet member for Resources and Commercialism
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Executive Summary

This report recommends the draft Revenue Budget 2016/17, draft Capital Programme for 2016/17 to 2019/20 and the draft Housing Revenue Account Budget 2016/17 for the approval of the Cabinet.

The details in this report have been prepared in accordance with the framework set out in the Medium Term Financial Strategy (MTFS) which is included in this agenda.

The draft Revenue Budget includes the recommendation for a 3.95% Council Tax increase; this includes 2% for the precept, which will contribute to the costs of providing adult social care services, which face substantial demand pressures now and into the future.

The draft Revenue Budget includes a substantial £14.2m of pressures mainly arising from increases in demand for services, particularly in Housing, Adults and Children's Social Care and £8.5m of government funding reductions. These are offset by £21.7m of savings, which have been developed in accordance with the administration's key principles of smarter, sustainable and different. In this Budget process around half of the proposed savings are classified as smarter, meaning they seek to deliver similar outcomes for Milton Keynes communities, but at a reducing cost.

The Capital Programme includes significant investment on a new residual waste treatment facility; 7 new schools builds and expansions, highways improvement works and contributions to the gallery and museum. Although it should be noted, there are substantial challenges in the future, including a forecast potential £30m shortfall, from our school build programme, owing to the rapid expansion of the city. This is further complicated by recently announced reductions to the New Homes Bonus funding stream.

1. RECOMMENDATIONS

1.1 That the draft Revenue Budget 2016/17 and Capital Programme for 2016/17 to 2019/20 to be approved as a basis for consultation.

1.2 That the provisional Council Tax at Band D of £1,206.06 for the Milton Keynes element of the Council Tax be agreed, a 3.95% increase on the previous year. This includes the additional 2% levy allowed by the Chancellor in his Autumn Statement towards offsetting some of the additional costs arising from the increase in demand for adult social care.

The legal requirement to set Council Tax is set out in Annex A.

1.3 That the estimated position for Dedicated Schools Grant for 2016/17 be noted.

1.4 That in line with the requirements of the Local Government Act 2003, it be noted that the Corporate Director, Resources is of the view that this draft Budget and Housing Revenue Account is robust and the forecast reserves are adequate.

1.5 That the proposed fees and charges for 2016/17 which are exceptions to the Income and Collection Policy be noted.

1.6 To approve flexibility in the setting of fees and charges for commercial services, as set out in paragraph 4.16 and Annex G.

1.7 That the equalities impact assessments for the draft Revenue Budget 2016/17, as set out in paragraph 15.6 be noted.

1.8 That the resource allocation for the draft Tariff Programme (Annex F) and draft Capital Programme 2016/17 to 2019/20 be noted (Item 4c).

2. INTRODUCTION

2.1 The Council's Medium Term Financial Strategy (MTFS) which was presented to Cabinet on 14 December, sets out:

- The financial planning principles (which have been approved by the Council and Cabinet in previous budget reports).
- The financial and service planning framework to ensure the Council's priorities are resourced.
- The local and national financial context.
- The main financial issues the Council is facing in the short and medium term, and the strategy to address these issues.

2.2 The draft Revenue Budget and draft Capital Programme set out in this report, have been developed in accordance with the Medium Term Financial Strategy.

2.3 This report deals with Budget issues in the following sequence:

Sections 3 to 5 – Draft Revenue Budget 2016/17 (General Fund)

- General Fund Resources
- General Fund Expenditure
- General Fund Savings
- Other Issues
- Summary of Draft Revenue Budget 2016/17

Section 6 – Parking Account

Section 7 – Capital Programme

- Capital Resources
- Capital Expenditure
- Summary of Capital Programme

Section 8 - Other Funding

- S106 Funding

- Tariff Funding
- Dedicated Schools Grant

Section 9 - Budget Consultation

Section 10 - Robustness and Risks

Section 11 - Related Decisions

Section 12 - Background

Section 13 – Annexes

Section 14 – Implications

3. DRAFT REVENUE BUDGET 2016/17

General Fund Resources - Ongoing

3.1 The Council is forecasting to receive £27.1m in Revenue Support Grant (RSG) in 2016/17, which is a 27% reduction from 2015/16 funding of £37m.

3.2 The underlying data for the determination of the Revenue Support Grant is based on 2012 population figures. This was part of the consequences of the move to the Business Rates Retention Scheme. However, this causes significant financial pressures for an area of rapid growth, such as Milton Keynes, particularly as the Business Rates Retention Scheme includes a levy to prevent authorities benefitting from “disproportionate growth”. In Milton Keynes this means the Council only retains 30p in every £1 of growth created.

3.3 The Council estimates it will retain £48.3m of the £158.5m of Business Rates collected during 2016/17; of this amount £43m is the Council’s Baseline Funding Level; the remaining £5.8m represents the estimated retained amount of funding since 2013/14 resulting from business rate growth. This represents an average additional income of £1.9m each year.

3.4 The Government will be consulting in January 2016 on the planned phasing out of the RSG in line with local authorities being able to retain 100% of the local Business Rates collected (subject to adjustments) by 2020.

3.5 Based on the Local Government element of the Communities and Local Government Departmental Expenditure Limit (DEL) the reduction in Revenue Support Grant has been re-profiled. This re-profiling has improved the headline position from the forecast included in the July MTFS in 2016/17 and 2017/18, whilst 2018/19 and 2019/20 are broadly in line earlier estimates. As a consequence the reductions in RSG have been revised by £4m in 2016/17 and £3.8m in 2017/18. However, the actual position will only be known once the provisional settlement is received and confirmed by the final settlement in January.

3.6 One of the significant changes announced in the Autumn Statement is the reduction in the Education Services grant. The combination of this 75% reduction in funding at a national level and the risks of loss of funding from schools converting to Academies means that the Council’s grant could reduce from £3m in 2015/16 to an estimated £0.6m in 2016/17. The final grant amount may differ depending on the actual number of conversions during the year and the actual level of funding reductions which will be applied through a new funding formula.

3.7 Four further additional cost pressures were identified arising from the Autumn statement:

- An additional 0.5% apprenticeship levy on the pay bill (c£0.340m) from 2017/18, this is on top of the change in contracted out National Insurance which we is estimated at £2.3m.
- A reduction in the value of New Homes Bonus paid to councils of £800m out of £1.2bn nationally and a change in the distribution formula. Milton Keynes has had significant resources from NHB over the past 5 years (annual income, if the scheme had not been changed would be c£12.5m per annum) which have been used to fund infrastructure costs essential to the growth of the city. To fund the gap in resources arising from this change, the draft Budget has included £0.7m per annum set aside for revenue contributions to capital in the council's base budget for three years.
- Public Health, the Autumn statement headlined a 3.9% reduction in Public Health grant for local authorities. While no further information is available at this time, the draft Revenue Budget has assumed that this reduction is applied to the Public Health Grant and is not offset by spending reductions.
- Withdrawal of Management and Maintenance Allowance on private sector leased accommodation, means that the additional top up payments (£60 per week) currently received for homeless families in private sector accommodation will end, resulting in a £0.16m additional cost from 2018/19.

3.8 There are two areas where the Council may gain benefit:

- A £1.5bn additional investment nationally in the Better Care Fund (a 30% increase over a base in 2015/16 of £4bn). The previous funding came with additional service requirements and rolled up some existing grants. It had, however a benefit investing in some of the preventative services across health and social care to reduce demand pressures. The assumption at this point is that any additional funding will come with equivalent additional service requirements, resulting in no net addition to resources.
- A £600m in investment in NHS Mental Health services. Whilst it is unlikely there will be a direct funding impact there may be some benefits to the arrangement the council has with CNWL NHS Trust.

3.9 Therefore, total Government funding is estimated at £87.7m for 2016/17, compared to £96.2m from 2015/16, a reduction of 8.8%.

3.10 The Government will provide individual local authority funding allocations in December 2015, as part of the Provisional Financial Settlement, which will then be later confirmed in February 2016.

Council Tax

3.11 The ability for local authorities to raise a new 'Social Care Council Tax Precept' was announced by the Chancellor as part of the Autumn Statement; this allows local authorities to raise their Council Tax by an additional 2%, over and above the current 2% Council Tax referendum threshold, as long as the additional income generated, supports Adult Social Care expenditure. The Autumn Statement did not offer a 1% Council Tax Freeze grant and the final referendum limit is yet to be confirmed.

3.12 The Council is committed to providing social care and safeguarding services to its elderly and vulnerable citizens, therefore, is planning to increase its Council Tax Charge by 3.95%; of which 2% of the increase in Council Tax income generated will be invested directly within Adult Social Care service provision.

3.13 The Council currently spends £56.5m per year on Adult Social Care and Health Services. Over the medium term the current forecast identifies a need to spend a total of £10.4m extra (on an ongoing basis), and £0.9m on a one-off basis on Adult Social Care and Health Services, excluding pay inflation (by 2019/20). It is also likely these pressures will increase in the medium term. Against this, the additional Council Tax levy is expected to create £8.2m of income, so while helpful, the council still needs to redesign services and generate efficiencies to ensure these services are sustainable for the medium term.

3.14 Council Tax income is anticipated to increase by £5.9m in 2016/17; this total comprised of £3.7m of additional income due to a 3.95% increase to the charge (of which £1.9m will fund Adult Social Care service provision), and £2.2m of income as a result of the growth in the number of homes in Milton Keynes and other technical adjustments.

3.15 The 2016/17 Council Tax Base has increased compared to the previous MTFS assumption. This is due to the positive impact on the Tax Base of:

- Additional forecast growth in 2016/17 Band D property numbers.
- A reduction in the number of people claiming Council Tax Reductions. This is attributed to people moving in to work and assumes the local economy will continue to improve, meaning fewer people will be entitled to discounts.
- The proactive approach to the introduction of Local Council Tax Reduction including; investment in easier ways to pay, a discretionary fund for hardship cases and publicity of the potential impact and support for those required to make a contribution, has resulted in collection rates being better than expected.
- Single person discount review, which reduced the number of properties eligible for single person discount.

Ongoing Revenue - Key Assumptions

3.16 In summary, the following assumptions have been made to determine the likely resources available in 2016/17:

- An increase in the number of Band D properties of 1,366 homes, based on current projections.
- Government funding through Revenue Support Grant as per headline departmental spending review totals and previous Government announcements and Retained Business Rates from local estimates.
- Estimated Education Services Grant based on estimated funding rates and a prudent approach to funding reductions for schools transferring from maintained settings to academies.
- A 3.95% increase in Council Tax, taking the Milton Keynes Council precept to £1,206.06 for a Band D property.
- Public Health grant has been assumed to reduce by 3.9% in line with the Autumn Statement announcements.

- New Homes Bonus will continue to be used to support infrastructure funding, and so is part of the draft Capital Programme, rather than used as a resource for the draft Revenue Budget.

Table 1: Summary of Forecast Revenue Resources for 2016/17

Revenue Resources	£m
Revenue Support Grant	(27.155)
Retained Business Rates	(48.300)
Education Services Grant	(0.580)
Council Tax (including parish precepts)	(102.530)
Public Health Grant	(11.656)
Total Ongoing Resources	**(190.221)**

3.17 It is important to note that final Council Tax bills will also be affected by the Council Tax precept set by parish and town councils, the Buckinghamshire Combined Fire Authority, the Police and Crime Commissioner for Thames Valley.

General Fund - One-off Resources

3.18 In accordance with the Council's financial principles, the following one-off resources are available to use in the draft Budget 2016/17 to fund identified one-off pressures.

Table 2: Summary of One-off Revenue Resources for 2016/17

One-off Resources	£m
2014/15 Collection Fund Surplus (latest projection)	(0.850)
2015/16 estimated Collection Fund surplus	(1.750)
Release of Earmarked Reserves	(0.628)
Budget pressures for National Insurance increases were phased in over the medium term, so a contribution is available as one-off funding	(0.700)
Minimum Revenue Provision Policy (approved by Cabinet in October 2015)	(3.616)
Additional one-off funding as a result of the anticipated change in profile of Revenue Support Grant reductions	(0.860)
Total One-off Resources	**(8.404)**

General Fund Expenditure

3.19 In determining the forecast draft Revenue Budget expenditure for 2016/17 the following assumptions have been made:

- Goods and services general inflation will be offset by efficiency savings in services and are therefore set at 0%.
- Contractual inflation – based on existing contract agreements.
- 2% increase in fees and charges, apart from those exemptions and concessions listed in annex G.
- General employee pay inflation reflects the announcement from the national Government that public sector pay increases will be capped at 1% for the next four years.
- 1% increase in employee salary costs for increment awards.

3.20 As part of the Budget process Service Groups have identified ongoing and one-off pressures. The pressures identified have been challenged as part of both officer and Councillor scrutiny of the draft Revenue Budget. This is to ensure that pressures are realistic and reflect a reasonable forecast of future costs to ensure an accurate budget, while not overstating costs.

3.21 The pressures identified in the draft Budget 2016/17 are summarised in Table 3.

Table 3: 2016/17 Budget Pressures

Pressures by Category	**£m**
Demography	8.405
Legislative	0.933
General	1.480
Total Ongoing Service Pressures	**10.818**
Sustainability Items	3.390
Total Ongoing Pressures	**14.208**
One-off Budget Pressures (Service Groups)	6.456
One-off Budget Pressures (Corporate)	1.698
Total One-off Budget Pressures	**8.154**

3.22 Ongoing Budget pressures of £14.2m will be funded, with a further £8.2m of one-off expenditure being funded from identified one-off resources. This approach ensures that base budgets are not adjusted for one-off expenditure which is not ongoing.

Levies

3.23 Levies are payments that a local authority is required to make to a particular body (a levying body). Levying bodies are defined in Section 117(5) of the Local Government Finance Act 1988.

3.24 In the case of Milton Keynes Council, the Environment Agency and the Buckingham and River Ouzel Internal Drainage Board both charge levies through the Council. These levies have yet to be confirmed for 2016/17, but for the purposes of this draft Revenue Budget it has been assumed that they will remain at the same level as 2015/16.

Table 4: Levies in 2016/17

Levying Authority	**£**
Environment Agency – Flood Defence (TBC Feb)	130,930
Buckingham and River Ouzel Internal Drainage Board (TBC Feb)	315,398
Total	**446,328**

Precepts

3.25 A precept is the amount of money that a local or major precepting authority has instructed the billing authority to collect and pay over to it in order to finance its net expenditure. The bodies that issue precepts to the Council are:

- Police & Crime Commissioner for Thames Valley;
- Buckinghamshire and Milton Keynes Fire Authority; and
- Parish and town councils within the boundary of Milton Keynes Council.

3.26 Each precepting authority advises the Council of the total amount of precept required to be collected through Council Tax. The amount of Council Tax required is added to the Council's own calculation to give the total Council Tax to be charged.

4 General Fund Savings

Strategy for Balancing the Budget

4.1 The combination of the increase in costs arising from an increase in both the cost and demand for services, and the significant reduction in Government funding, means that the draft Budget 2016/17 needs to include savings of £21.7m.

4.2 Since 2011/12 the Council has delivered £68m of savings, and is currently delivering a further £21m of savings in 2015/16, which means the choices for 2016/17 are more difficult to identify and deliver. The combination of continued Government funding reductions and significant increases in demand for services mean that the need for financial savings will continue until 2019/20.

4.3 The Council has no alternative but to fundamentally change its role in order to achieve the level of cost reductions required alongside communities and partners as a Co-operative Council. In some cases this will mean enabling others (e.g the Community and Cultural Services Review); and in other cases, services will be shared to reduce overhead costs; and in other examples the Council will offer the ability to retain services but at a cost to the user. Fundamentally the Council cannot continue to deliver services in the same way, so redesign work is required to ensure that services are sustainable.

4.4 The Council is also working to exploit new commercial opportunities to create new income streams which support the costs of front line service provision. These are through a combination of small scale opportunities created by a more commercial culture; potential investment opportunities and the potential creation of a Joint Venture partnership to drive culture change, invest in the opportunity available and to drive greater returns on investment.

4.5 This will be achieved by using three key principles that supports medium to long-term planning that creates a smarter, more sustainable Milton Keynes Council that does things differently.

- **Smarter** - Being more efficient. Reducing our costs, improving our customer services and more strategic commissioning to deliver better outcomes.
- **Sustainable** - Transforming our services to make them sustainable. Enabling communities, working with partners, and managing demand and growth
- **Different** - Doing things differently. Being more commercial, generating income and reshaping what we do by taking advantage of new opportunities.

4.6 This strategy and underlying programmes of work are explained in more detail within the MTFS in this agenda.

4.7 A summary of the savings proposals are shown in Table 5.

The detail of the individual savings is included as Item 5a of the Budget Scrutiny Committee agenda for the January Challenge meetings.

Table 5: Savings/Income Proposals 2016/17

Savings by Key Principle	£m
Smarter	9.958
Sustainable	5.211
Different	6.559
Total ongoing savings proposals (see Item 5a)	**21.728**

Estimated 2016/17 Workforce Reductions

4.8 The planned transformation of Council services will result in a significantly reduced workforce over the next four years. Based on the savings proposed in 2016/17, the workforce is estimated to reduce by 216 fte; of this figure 46 fte's are expected to be TUPE transfers to other organisations.

Table 6: Summary of 2016/17 workforce reductions

Staffing Levels	Total Workforce Savings £m	FTE Reductions	% of Pre-TUPE Current Salary Costs (MKC £62.3m & MKSP £20.5m)	Estimated TUPE FTE Reductions	Total FTE Reductions
Senior Grades (Directors and Heads of Service)	0.4	5.5	0.5%	0.0	**5.5**
Upper Grades (above £37k to HoS)	1.1	21.5	1.2%	2.0	**23.5**
Middle Grades (£28-£37k)	0.6	20.5	0.7%	0.0	**20.5**
Lower Grades (below £28k)	4.5	122.6	4.1%	44.2	**166.8**
Total	**6.6**	**170.1**	**6.5%**	**46.2**	**216.3**

4.9 The table above shows the forecast proportionate reductions and potential TUPE transfers by levels of staff. While there are reductions across all staff layers, the Budget does have the greatest impact on the lowest earners, due to the potential impact of the Learning Disability Review; the changes to sheltered housing wardens and the proposed changes to Libraries as a result of the Community and Cultural Services Review.

4.10 These changes are being made in the context of a senior management structure where headcount has reduced from 28 in 2010 to 19 in 2015. These reductions have reduced the senior workforce costs by £0.9m (27%) over this period.

Reserves

4.11 A general risk assessment carried out alongside the development of the Budget, showed that the minimum prudent level of reserves continues to remain at £7m.

4.12 However, due to the 2015/16 forecast overspend position, and the significant risks identified in the Budget Risk Register, the Council has set aside a further £3m of additional one-off resources.

4.13 It is therefore estimated that the General Fund Balance should begin the year at £7m, with an additional £3m set aside in an earmarked risk reserve.

Recharges

4.14 The Service Reporting Code of Practice requires Council's to determine the full cost of services, by allocating overheads to these services. The methodology for recharging central services has been reviewed for 2016/17. The revised methodology is set out in annex C. This methodology takes account of both the Code of Practice published by CIPFA and International Financial Reporting Standards.

4.15 The recharges will be finalised once the final 2016/17 Budget has been set by Council. In future years the level of recharges is expected to fall, as overheads continue to be reduced, although charges to individual services may increase or decrease depending on their relative size to the remainder of the Council.

Fees and Charges

4.16 The proposed fees and charges are in accordance with the principles set out in the Income and Collection Policy. The main principles in this Policy are:

- Charges will increase annually, informed by future consumer price index (CPI) forecasts.
- Charges are based on the full recovery of cost.
- Concessions are only for those in receipt of specific benefits, unless specifically agreed otherwise.
- Discretionary services will be charged for in advance, unless specifically agreed otherwise (e.g. for efficiency reasons).

4.17 The two main reasons for exceptions to the policy in the fees and charges proposed are:

- Additional concessions.
- Charges not increased in line with the policy.

4.18 The exemptions to the Income policy are outlined in Annex D.

4.19 As a result of the Council's increasingly commercial approach the fees and charges register reflects the areas which are commercial trading as well as those non-commercial charges. While the Income and Collection Policy applies to all fees and charges, and all charges are initially set as part of the Budget, to allow more commercial behaviours, it is recommended that officers have the flexibility to vary commercial charges in order to maximise income, in line with their delegated authority. This will allow services to respond to market variations and other opportunities in a timely manner. The commercial services provided are outlined in Annex G.

Local Council Tax Reduction Scheme

4.19 Council Tax Benefit was a benefit for people on a low income to help them to pay Council Tax. It was paid to individuals by local authorities. The national Government gave local authorities a subsidy to match the payments made to individuals.

4.20 In April 2013, the national Government reduced the funding available to local authorities and changed the mechanism for operating Council Tax Benefit, to a local scheme known as a Local Council Tax Reduction Scheme.

4.21 The change from Council Tax Benefit to the Local Council Tax Reduction Scheme means rather than receiving a benefit to offset the cost of Council Tax, eligible residents now receive a discount (Council Tax Reductions), which reduces the Tax Base for all precepting authorities.

4.22 In November 2015, Milton Keynes Council's Cabinet confirmed the current Local Council Tax Reduction Scheme to remain in place for 2016/17. This will provide individuals a level of certainty about the support they will receive, and enables the Council to review the scheme to inform any proposed changes in the future. Continuing with this scheme would mean the maximum level of Council Tax support for working age claimants would be maintained at 80%.

4.23 A full Council decision is required to formalise the Cabinet approval and this decision is due to be made in January 2016 meeting.

Local Council Tax Reduction Funding

4.24 The introduction of the LCTRS reduces the Tax Base, and therefore the Council Tax income collected by individual precepting bodies. However, Government funding to major preceptors offsets a proportion of the financial impact of this change.

4.25 Additional national Government funding is provided to the Council through the Revenue Support Grant, to partially offset the reduced tax base for parish and town councils, arising from the introduction of the Local Council Tax Reduction Scheme.

4.26 As a result of the significant medium-term reductions to the Council's RSG, the MTFS proposes to reduce the funding it allocates to town and parish councils in line with national Government funding reductions.

4.27 The Council Tax Base and Business Rates Baseline report approved by Cabinet in November 2015, provides further details on the funding for town and parish councils for 2016/17.

5. Summary of Draft Revenue Budget 2016/17

5.1 In total, the draft 2016/17 Revenue Budget includes £36.0m of ongoing budget pressures, funding reductions, and £8.2m of one-off pressures, offset by £21.7m of savings, £6.1m of additional income and £8.2m of one-off funding.

Table 7: Summary Draft Revenue Budget Position 2016/17

	£m	Ongoing Budget £m
Technical Adjustments	2.829	
Inflation	2.306	5.135
Corporate Pressures	3.390	
Other ongoing Pressures	10.818	14.208
One-off Pressures	8.154	
Funding Reduction	8.472	8.472
Total Pressures	**35.969**	**27.815**
Additional Income (Council Tax)	(4.223)	
Adult Social Care 2% Council Tax Precept	(1.865)	(6.088)
Total Savings	(21.728)	(21.728)
Less One-off Funding (funding one-off pressures)	(8.154)	
Net Ongoing Position	**0.000**	**0.000**

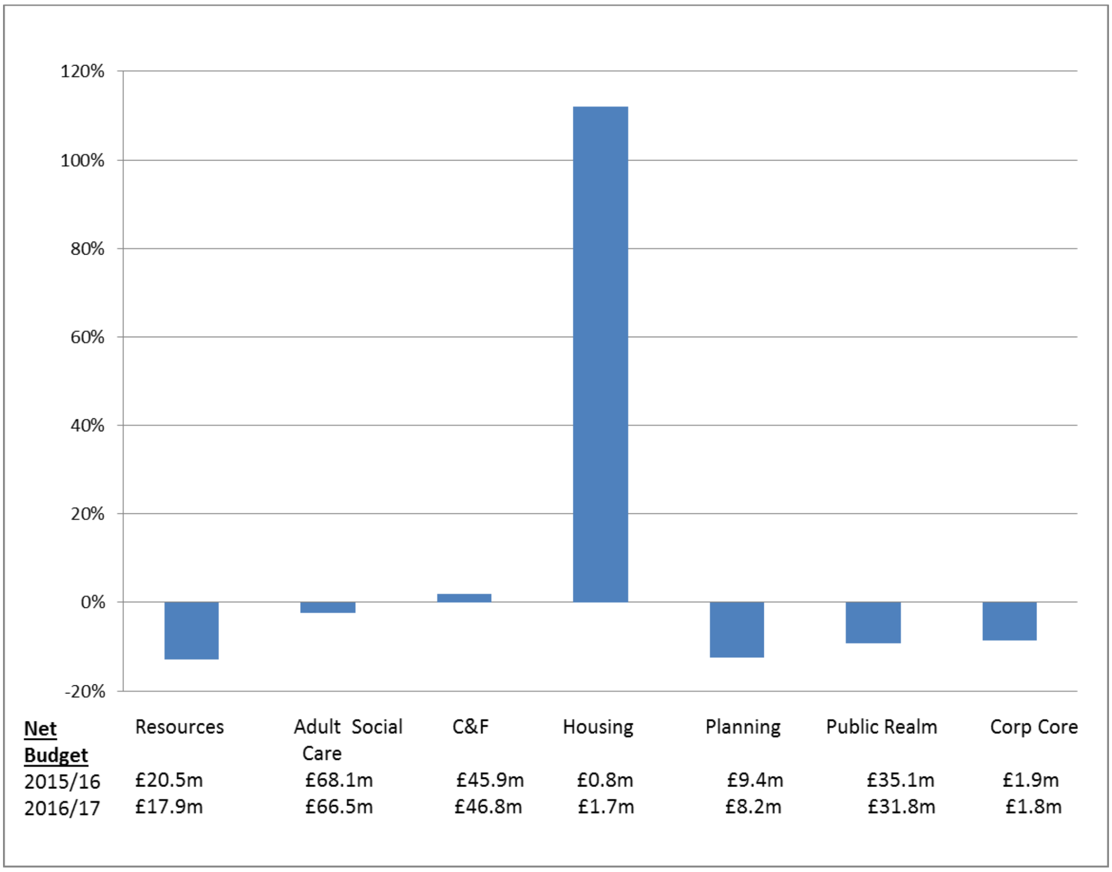
Note: £250k of additional one-off funding is currently available in 2016/17

5.2 The Council's strategy to address the significant financial challenges over the medium term, requires all services to identify ways to reduce costs and/or generate additional income.

5.3 However, this strategy does recognise that those Services, in particular - Housing, Adult Social Care and Health and Children's Social Care which support the most vulnerable people in Milton Keynes are also facing significant demand pressures, therefore these anticipated pressures are funded in draft Budget 2016/17 based on local trend data and demographic growth projections.

5.4 With this principle in mind, the savings in the draft Budget 2016/17 are not shared evenly across Service Groups. Notwithstanding, seeking to recognise the significant financial savings to be found by the Council this year and in coming years, each and all of the Service Groups have been tasked with exploring new ways of working so as to drive efficiencies in how services are delivered in coming years. Chart one shows how each Service Group's 2016/17 Budget has changed as a proportion of its 2015/16 Budget.

Chart 1: Service Groups Percentage Budget Change – 2016/17 compared to 2015/16



Note 1: Budgets include capital charges

Note 2: Budgets reflect disaggregation of MKSP budgets

5.5 Table 8 summarises the base budget position for the draft Revenue Budget 2016/17. In addition to this base budget position, Service Groups will receive one-off budget pressures, as discussed at the October meetings..

Table 8 – Summary of Ongoing Draft Revenue Base Budget 2016/17

	Adjusted Budget 2015/16	Inflation / Pressures	Savings	2016/17 Budget
	£000	£000	£000	£000
SERVICES:				
Resources	20,511	558	(3,195)	17,874
Adult Social Care & Health	68,136	2,853	(4,493)	66,496
Children & Families	45,850	4,877	(3,966)	46,761
Total People	**113,986**	**7,730**	**(8,459)**	**113,257**
Housing & Community	793	2,517	(1,629)	1,681
Planning	9,351	(13)	(1,148)	8,190
Public Realm	35,091	1,942	(5,192)	31,841
Total Place	**45,235**	**4,446**	**(7,969)**	**41,712**
Corporate Core	1,931	39	(203)	1,767
Total	**181,663**	**12,773**	**(19,826)**	**174,610**
CORPORATE ITEMS				
Pay Inflation				1,187
Levies, Sustainability items and Redundancy Costs				10,852
Debt Financing				17,228
Notional Capital Charges				(15,544)
Recharges to HRA				(4,234)
Parish Precepts Paid				6,122
Total Expenditure				**190,221**
FUNDED BY:				
Revenue Support Grant				(27,155)
Retained Business Rates				(48,300)
Council Tax (including parish precepts)				(102,530)
Education Services Grant				(580)
Public Health Grant				(11,656)
Total Funding				**(190,221)**

Note 1: Savings of £1.9m included within debt financing figure

6. PARKING ACCOUNT

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

6.2 As in previous years, the Council has estimated the likely income it will receive from car parking in 2016/17, the costs that are required to manage car parking, and has considered the need for additional car parking.

6.3 As a result of this process it has been identified that car parking is expected to generate a surplus in 2015/16, which will be transferred to the General Fund for use in accordance with section 55(d) of the Road Traffic Regulation Act 1984 to fund:

- Off street parking provision
- Public transport
- Highways and road improvements
- Environment Improvements

6.4 Annex E outlines the forecast parking surplus and the proposed use of this surplus as part of the draft Budget 2016/17.

7. CAPITAL PROGRAMME

Capital Resources

7.1 Table 9, shows the forecast resources available for the Medium Term Capital Programme. An explanation of the different capital financing streams and assumptions for the Medium Term Capital Programme is available in the MTFS report. However, the key assumptions for the financing of the Capital Programme are:

- Children and Families Basic Need capital financing is based on confirmed allocations from the Local Government Finance Settlement for 2016/17 and 2017/18 with a forecast for future years.
- Children and Families financing for School Condition Allocation is based on indicative allocations for 2016/17, whilst Adult Social Care funding has been assumed at 2015/16 levels.
- Transport funding is based on confirmed allocations until 2017/18 and advised indicative allocations for future years.
- Housing funding is based on an estimated contribution from revenue to capital based on affordability within the Housing Revenue Account.
- No tariff or developer contributions have been assumed, except where specified in individual project appraisals.
- £4.3m of 2016/17 New Homes Bonus has been allocated and will fund projects such as V4 Crossings, and enhancements required for the Future Working Project. The Autumn Statement outlined the value of New Homes Bonus paid to councils will be reduced by of £800m out of £950m nationally and there will be a change in the distribution formula. Milton Keynes have had significant resources from NHB over the past 5 years (annual income, if the scheme had not been changed would be c£12.5m per annum) which have been used to fund infrastructure costs essential to the growth of the city. To fund the gap in resources arising from this change, the draft budget has included £0.7m per annum set aside for revenue contributions to capital in the council's base budget for three years.

7.2 Housing Right to Buy Receipts – the Council has signed up to a DCLG scheme which will allow the previously pooled share of Right to Buy receipts to be retained by the Council, to make a 30% contribution to the costs of delivering new housing schemes. If resources are not spent in a three year time period the receipts will need to be returned along with interest of 4% above the base rate. The Medium Term Capital Programme assumes forecast receipts will be allocated to new build housing.

7.3 Prudential borrowing is being used to finance the Highways and Infrastructure investment and the Residual Waste Treatment Facility (£129m in 2016/17). The revenue costs of this borrowing will be met through the revenue budgets which have been developed as part of the sustainability items.

Table 9: Forecast Medium Term Capital Resources

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 Onward £m
Capital Receipts	5.396	3.167	0.220	0.220	0.220
Developer Contributions	26.688	18.611	13.120	3.457	28.451
New Homes Bonus	7.014	1.454	0.510	0.000	2.262
Parking Reserve	0.050	0.050	0.050	0.050	0.050
Prudential Borrowing	146.968	16.075	10.494	24.879	5.769
Single Capital Pot	63.115	24.087	23.358	23.358	39.241
Grant	5.592	2.864	2.375	0.000	0.000
Revenue	24.003	17.525	18.726	19.321	19.321
Third Party Contributions	0.250	0.050	0.050	0.050	0.050
Major Repairs Reserve	9.258	2.496	1.296	0.000	0.000
Total	**288.334**	**86.379**	**70.199**	**71.335**	**95.364**

7.4 No scheme is included into the Medium Term Capital Programme unless it is fully funded. The 2020/21 onward figures reflect the resources required in future years to complete those schemes approved as part of this Medium Term Capital Programme, but no new schemes.

7.5 The New Homes Bonus has been earmarked to finance infrastructure projects; together with investment in the museum, and the Future Work Programme. If alternative capital resources are identified, the New Homes Bonus will be released to resource other emerging priorities.

Capital Expenditure

7.6 The 2015/16 Capital Programme was approved by February 2015 Council. Schemes were reviewed and scrutinised to determine any uncommitted resources remaining, which were then allocated to urgent and priority schemes.

7.7 In order to develop the revised Medium Term Capital Programme, future years' allocations remain broadly in line with the previous forecast, however these have been updated where changes to specific schemes have been identified and to include emerging pressures in the need for additional school places. Table 10, shows the summary capital expenditure proposed over the medium-term.

7.8 The schemes marked as continuing, are those schemes which have commenced as part of previous years Capital Programmes. Expenditure in the year 2020/21 onwards column reflects the expenditure required to complete the schemes commenced in the Medium Term Capital Programme, but does not include any new starts.

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

- The Children and Families programme includes school expansions to increase the number of pupil places, the completion of a number of new schools already under construction and the building of 4 new primary schools and 3 secondary schools starting after 2016/17.
- The Council is continuing to fund the building of up to 200 new homes to address the increasing demand for affordable Housing.
- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.
- The Residual Waste Treatment Facility is due to open in 2016/17 funded through prudential borrowing at a cost of £129m.
- The Future Work Programme which will result in improvements to Council office accommodation; supports new ways of working and reduces the cost of Council accommodation.

Table 10: Forecast Medium Term Capital Expenditure

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 Onward £m
Education – Continuing Schemes	56.199	15.695	0.000	0.000	0.000
Education – New Starts	3.787	27.830	54.673	24.242	35.398
Transport – Continuing Schemes	6.953	3.546	2.476	2.405	5.090
Transport – New Starts	16.358	19.334	17.893	10.035	23.008
Social Care & Housing GF – Continuing Schemes	0.208	0.000	0.000	0.000	0.000
Social Care & Housing GF – New Schemes	0.583	1.563	1.563	0.563	0.563
Housing HRA – Continuing Schemes	15.720	0.000	0.000	0.000	0.000
Housing HRA – New Starts	21.575	26.684	19.542	19.541	19.541
EPCS – Continuing schemes	152.284	2.717	0.105	0.100	0.200
Strategic Pot– New Starts	8.064	3.164	0.728	20.560	1.480
TOTAL Expenditure	**281.731**	**100.533**	**96.980**	**77.446**	**85.280**

Summary of Capital Programme

7.10 Table 11 shows the Council's current capital expenditure needs cannot be met over the medium-term. New pressures have been identified for the need for more school places before 2018/19 which is resulting in a significant additional cost. The costs and funding of these projects will be refined as the capital programme is developed for 2016/17. In addition to this, there will be additional demands identified over the medium-term which may require the reprioritisation of funding.

7.11 Unless costs reduce or additional income is received the Council will need to meet health and safety / statutory requirements by using its prudential borrowing powers. A £34m requirement would result in revenue costs of between £1m and £2m per annum.

Table 11: Forecast Medium Term Summary of Capital Resources an Expenditure

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 Onward £m
Capital Resources	288.334	86.379	70.199	71.335	95.364
Capital Expenditure	281.731	100.533	96.980	77.446	85.280
Net Position (surplus) / deficit	**(6.603)**	**14.154**	**26.781**	**6.111**	**(10.084)**
Cumulative Position (surplus) / deficit	(6.603)	7.551	34.332	40.443	30.359

8. OTHER FUNDING

S106 Funding

8.1 S106 funding is a key resource in supporting the Council to mitigate the impact of growth. The use of S106 funding must be managed carefully to address both local and strategic needs. Developer Contributions (S106) are included in the Capital Programme or to fund projects which meet the specification outlined in the S106 agreement.

8.2 The S106 funding received from developers is often a contribution toward total project costs. As appropriate schemes are developed through the Capital Programme processes, these resources are used towards the delivery of the full project.

8.3 S106 funding is closely monitored, with a greater focus on those schemes nearing their expiry date in order to ensure all available resource is used to deliver community facilities as intended.

8.4 The development of the capital programme has incorporated consideration of S106 funding, so resources are used in the most effective manner to address necessary schemes. This process has also included reviewing unidentified funding to ensure that this is allocated to future projects. Work is still ongoing to identify individual schemes and future allocations will be updated as schemes are developed.

8.5 A total of £28.4m of S106 funding has been allocated within the Capital Programme which includes £14.8m in 2015/16, £6.6m within 2016/17 with a remaining £7m of funding up to the period 2020.

8.6 A further £5.9m has been earmarked to projects. These include projects that are being initiated but do not yet have capital approval, parish and town council projects and other revenue projects awaiting approval.

8.7 The remaining balance of £17.5m is yet to be committed, however all of the funding is notionally ring-fenced to approximately 200 individual S106 contributions, covering over 350 individual projects.

Tariff

8.8 The Milton Keynes Tariff is a unique s106 based ‘umbrella’ arrangement covering development in the expansion areas covered by the previously designated ‘Urban Development Area’. Through the Tariff mechanism, the Council will collect over £310m in developer contributions over its lifetime, which will be re-invested in a Programme of strategic and local infrastructure covering a total of 18 ‘portfolios’, 11 of which are delivered through the Council.

8.9 The Capital Programme includes resourcing of various Council led projects from the Tariff. As the operator of the Tariff, the Council is also responsible for controlling expenditure across the whole Tariff mechanism. This is managed by approving Resource Allocation for future schemes as part of a medium term plan, with a Spend Approval stage before individual projects commence.

8.10 Annex F shows a breakdown of the Tariff resource allocation for 2016/17 and indicative allocation for the next four years, both for projects to be delivered by the Council and those managed by other areas of the community.

8.11 Tariff resource allocation includes both amounts to be financed through cash and others to be completed by works in kind. Allocations to the Council's projects are included within the Capital Programme and requests for Resource Allocation and Spend Approval will be sought on a project by project basis in line with the agreed process for entry into the Capital Programme.

Dedicated Schools Grant

8.12 The Dedicated Schools Grant (DSG) supports individual schools and academies and other pupil related expenditure within the People Directorate.

8.13 The School and Early Years Finance Regulations 2014 define the services that can be supported by the DSG. The DSG is allocated based on pupil numbers on the roll of both schools and academies, although academies receive their actual funding direct from the Education Funding Agency.

8.14 The DSG is based on three blocks; schools, early years and high needs:

- The schools block is calculated based on the number of pupils on roll at a specific census date in October 2015.
- The early years block is calculated based on the number of early years pupils on roll at specific census dates in January 2016 and January 2017 and will not be confirmed until after the end of the financial year, so budget allocations to providers will be based on forecast income.
- The high needs block is currently based on historic cost adjusted for any agreed additional places. However, there has been no increase directly related to demographic growth thus providing no additional "top up funding" for pupils with Education Health Care plans. The EFA is currently considering moving to a formulaic approach to funding the high needs block.

8.15 The Council's estimated DSG for 2016/17 is calculated by using current unit costs and projected pupil population data. A summary of Milton Keynes Council's estimated DSG for 2016/17 to 2019/20 is set out in Table 12.

Table 12: Forecast Dedicated Schools Grant for 2016/17 to 2019/20

DSG Income / Expenditure	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Schools Block	(176.838)	(183.887)	(190.737)	(198.329)
Early Years Block	(14.245)	(14.660)	(14.949)	(15.244)
High Needs Block	(28.451)	(28.692)	(28.942)	(29.192)
Total Income	**(219.534)**	**(227.239)**	**(234.628)**	**(242.765)**
Individual School Budgets	171.911	176.296	181.582	187.848
Central Spend – LA	0.680	0.680	0.680	0.680
Central Spend – Schools	2.126	2.497	3.165	3.979
Early Years Block	14.385	14.653	14.933	15.214
High Needs Block	31.705	32.797	35.315	36.172
Total Expenditure	**220.807**	**226.923**	**235.674**	**243.893**
In Year Total	**1.273**	**(0.316)**	**1.046**	**1.128**
Estimated Balance B/fwd	(0.133)	1.140	0.824	1.871
Estimated Balance C/fwd	1.140	0.824	1.871	2.998

8.16 As Milton Keynes continues to expand, the Council needs to provide significant additional school places. This poses a considerable challenge, as the cost of these additional school places is not immediately reflected in the DSG, due to the delayed manner in how it is calculated by the national Government. This financial pressure is in addition to that arising from the freezing of populations levels in the calculation of the Council’s Revenue Support Grant.

8.17 There has also been a recent sharp increase in the number and complexity of need of children being placed in special schools. In order to meet these pressures it has been necessary to reduce all of the formula factors by 1.5% in the primary and secondary sectors, as well as reducing top up funding by 1.5% in the special sector. Although schools are still protected by the minimum funding guarantee which protects schools to a maximum of a 1.5% reduction per pupil.

8.18 As a result of these pressures there is a forecast deficit budget position on the DSG of £1.1m in 2016/17. The 2017/18 DSG forecast position is an in-year surplus of £0.3m, which would reduce the overall deficit to £0.8m. The improvement in the forecast position is due to the predicted growth of pupil numbers and a reduction in cost to the local funding formula as a result of a reduction in the minimum funding guarantee (£2.5m), however, this will be offset by an increase in funding required for more special school places (£0.9m).

8.19 There is a risk around the funding of the proposed new special school, as the current national position does not fund any increases in high needs place numbers within a local authority, although local authorities are permitted to reallocate places between institutions. As this is an organisational change, which has been funded in the past, it is not yet certain if the Department for Education (DfE) will fund the increase in high needs places at this school.

8.20 The DfE are currently reviewing the funding for the high needs block and an announcement is anticipated within the Local Government Finance Settlement in December 2015.

8.21 The current DSG projections assume that the places will not be funded, which would result in an in-year deficit position of £1m. This would increase the forecast DSG deficit budget position by c£1m each year. However, if there is no additional funding for these places, the DSG projections will need to be reviewed to identify other areas where reductions can be made, as an in-year deficit of over £1m is not sustainable.

9. BUDGET CONSULTATION

9.1 Consultation on the proposals outlined in this draft budget will begin on 15 December and continue until 31 January. The consultation will be publicised through a series of Budget Roadshows throughout the borough, on the Council website and social media channels, through local media advertising, and other means.

9.2 The responses to the consultation will be evaluated to inform the final Budget decisions to be taken in February 2016.

10. ROBUSTNESS AND RISKS

10.1 A critical element of the Medium Term Financial Strategy and Budget is to ensure that the financial consequences of risk are adequately reflected in the Council's finances.

10.2 In preparing the Budget for 2016/17, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report or the MTFS report included within this agenda. Where the impact is not known this has been highlighted as a risk.

10.3 The General Fund Balance of £7m and additional allocation of £3m to offset unexpected risks and the risk assessment of the timing, delivery and implementation of savings proposals is estimated to be adequate to meet the Council's financial needs in 2016/17.

10.4 This view takes account of the reserves included in the Council's latest audited Accounts as at 31 March 2015; the movement of these reserves since that date (as tracked through the Budget Monitoring process); and the proposed use of reserves as part of the draft Budget 2016/17.

10.5 The potential risks for the Council are outlined in the Budget Risk Register at Annex B.

11. RELATED DECISIONS

11.1 Related decisions include:

- The Medium Term Financial Strategy 2016/17 to 2019/20, approved by Cabinet, elsewhere on this agenda.

- Council Tax Base and Business Rates Baseline 2016/17 report, approved by Cabinet in November 2015.

12. BACKGROUND

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

12.2 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 will affect the Council Budget and Council Tax decisions in February.

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

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

12.5 The Budget has again been developed at a detailed level based on information supplied by Service Groups and has been subject to scrutiny by the Corporate Leadership Team. The Budget Scrutiny Committee have also scrutinised the budget process and challenged budget pressure proposals.

13. ANNEXES

13.1 The following annexes are appended to this report:

Legal Framework	Annex A
2016/17 Draft Budget Risk Register	Annex B
Recharges Methodology	Annex C
Fees and Charges: Exemptions to the Income Policy Additional Concessions	Annex D
2016/17 Draft Parking Account	Annex E
Draft Tariff Resource Allocation	Annex F
Charging for Commercial Services	Annex G

14. IMPLICATIONS

Policy

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

Resources and Risk

Yes	Capital	Yes	Revenue	Yes	Accommodation
Yes	IT	Yes	Medium Term Plan	Yes	Asset Management

14.2 A detailed budget risk register is available at Annex B to this report.

Carbon and Energy Management

14.3 There are no direct carbon and energy management implications as a result of this report. However, the service plans including the draft savings proposals and capital appraisals that support the services and capital schemes described within this report may have Carbon and Energy Management Implications and those documents will set these out.

Legal

14.4 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a sound budget each year is a statutory responsibility of the Council.

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

Other Implications

14.6 An Equality Impact Assessment (EqiA) was conducted on all savings proposals of which 18 were considered as being 'significant' and 'relevant' to equality (the full assessment is available at http://j.mp/BUD16-EqIA). Similar decisions have been brought together to produce 14 in-depth assessments. These assessments are likely to recommend that:

- In five (5) green areas, it is recommended that savings continue, as there is a potential to improve the advancement equality of opportunity.
- In seven (7) green-amber areas, adjustments have been/are being made to remove barriers identified by the EqIA or to better promote equality. Proposed adjustments will remove the barriers will be identified.
- In two (2) amber areas, it is recommended to continue despite having identified some potential for an adverse impact or a possible missed opportunity to promote equality. In this case, the justification is included in the EqIA and is in line with the duty to have 'due regard'. Consideration has been made to whether there are sufficient plans to reduce the negative impact and/or plans to monitor the actual impact.
- There are no (0) red areas, it is recommended that savings not continue, as there is a potential for unlawful discrimination.

14.7 To ensure the Council meets the needs of vulnerable people; twenty four Budget pressures will advance equality of opportunity. These include:

- Increases in re-enablement, which will help people affected by service changes to residential placements and homecare measures.
- Measures to meet increases in demand due to sizeable changes in demography, so that the Council has to ensure that services are based on statutory eligible needs and that people's needs are regularly reviewed.
- Activities that meet the needs of the most vulnerable people with disabilities, children and older people.

14.8 Overall, the impact in 2016/17 will fall slightly more heavily on older people; however, in the last four years this group has been proportionately more protected. This EqIA suggests that put together pressures and savings show a redirection in support, based on eligible needs, with challenging increases in demand in areas such as fostering and homelessness.

14.9 Table 15 contains proposals where adjustments have been made or being considered to remove barriers identified by the EqIA or to better promote equality. The proposed adjustments will remove the barriers identified.

Table 15: Summary of adjustments being made

Area of Work	Adjustment Made/Being Made
Sheltered Housing	Where people have eligible care needs these are assessed and receive care packages to meet their needs provided. The schemes are well placed to be actively involved in community groups and activities and many take place in the centres themselves.
Changes in Older People's services	For the Day Centres, bringing these services together on one new site will provide a modern day service for older people with dementia and those who are physically frail. For the community call, an offer to the external market would reduce staff costs and the need to maintain the call handling system. More creative solutions and up to date technology could be available, helping people with low level needs remain at home.
Learning Disability Review	A number of suggested changes contain adjustments that advance equality. For example, Shared Lives has a proven record of accomplishment of improved service and savings. Increase use of direct payments has led to different choices and more tailored solutions.
ASC Charging	There is a need for review following introduction of the new Personal Independent Payment Benefit (PIP) to ensure equitable treatment of benefits when service users are being financially assessed to pay towards the cost of care.
Community Engagement Activity	In partnership with other children and young people partners engagement will be refocused.
Improved Home to school transport	Adjustments will be made to ensure the service provided fully meets the statutory requirement in terms of the qualifying distances. However, a larger number of journeys will be made on public transport, sometimes with an expectation that parents or carers accompanied their children on the journey.
Rationalisation of Play Areas	Using the standard from the Local Plan the accessibility (both physical locality) and "play value" of play areas will improve, however the number of play equipment items will decrease.

14.10 Table 16 outlines those areas where the recommendation is to continue, despite having identified some potential for adverse impact or missed opportunities to promote equality. In these cases, the justification is included in the EqIA and is in line with the duty to have 'due regard' and reasons are provided.

Table 16: Summary of the justification for accepting a potential adverse impact

Area of Work	Cabinet should have due regard to:
Homecare measures II – cease provision of some services	Ceasing the services will have an effect on some service users. However, these are services that neighbouring Councils have ceased as it moves beyond the requirement of the Care Act and are services that could be provided by voluntary sector organisations. The need for these types of services does not meet the eligibility criteria for support. A review of the alternatives will be conducted to ensure that alternatives are in place. Adjustments through an improved re-enablement service will meet the needs of the most affected people.
Community & Cultural Review	These changes, which were initiated under the Community and Cultural Services Review may yet have an adverse impact but there is a commitment to finding more creative and sustainable models for the delivery of libraries, children's centres and youth services, including information advice and guidance, other than to simply closing them. This remains the objective of this work. The first year of planned changes was successfully implemented. Partners, including local schools, have engaged well and are continuing to assist with the development of options for ongoing service delivery at a lower cost to the Council.

Background Papers

Budget Scrutiny Committee papers.