Cabinet report

milton keynes council

1 September 2020

MEDIUM TERM FINANCIAL OUTLOOK [2021/22 TO 2024/25]

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Exempt / confidential / not for publication	**No**
Council Plan reference	**1 – Balanced Budget**
Wards affected	**All wards**

Summary

Milton Keynes Council's Medium Term Financial Plan (MTFP) was updated in February 2020, at which time the forecast budget gap over the subsequent three-year period was £14.314m. The impact of the global COVID-19 pandemic crisis means that many of the assumptions used to build this financial position are no longer valid. This Medium Term Financial Outlook (MTFO) sets out the scale of the financial challenges we face over the coming years and, more importantly, the Council's approach to addressing it. The new budget gap ranges from, in the best case, £31m to £59m, in the worst case. It is noted that during the period 2010 to 2020 MKC delivered circa £160m in budget cuts, and because of this, the forecast budget gap comes after many years of difficult service cuts alongside organisational cost savings and efficiencies.

The Council has faced significant cost and income pressures as a result of the pandemic crisis, and we have no way of knowing how long the economic recovery will take both on a national or local level. It is noted that the UK has now technically entered recession, one which many experts have characterised as the sharpest and deepest in modern history. In having to rapidly respond to the crisis we have had to re-consider how we deliver services in the future.

To respond effectively we need to ensure that we adopt a more flexible approach to our budget setting process. This is a necessity, not a choice. The future uncertainties we face have never been greater: for example, what funding will Central Government provide to local Government, how much income will we receive from local businesses given the seismic shifts in the economy, and how much help will we need to provide to struggling local residents and families as job losses mount.

From the onset of the pandemic we have developed three potential budget scenarios based on a low, medium and high impact on the Council's finances over the medium term. These scenarios unlike our MTFP focus on the specific areas of material change to the budget and take different views on how long and to what extent financial pressures will continue. We have not rebased the core budget in terms of changes to demand, demography or inflation.

This report sets out how we are going to develop the MTFP and budget for 2021/22 in the context of a very uncertain financial outlook.

Our goal remains to achieve a sustainable medium-term position against a backdrop of unprecedented challenge and volatility, and lack of a coherent national policy and funding envelope, whilst continuing to actively deliver the Council's priorities as set out in the refreshed Council Plan.

1. Decision/s to be made

1.1 That the budget scenarios out in Table 2, be noted.

1.2 That the approach to addressing the Council's MTFP gap, as set out in paras 3.34 to 3.41, be noted.

1.3 That the Cabinet and Corporate Leadership Team (CLT) continue to develop detailed proposals to facilitate the delivery of a robust and sustainable Medium Term Financial Plan.

2. Why is the decision needed?

2.1 The purpose of this report is to:

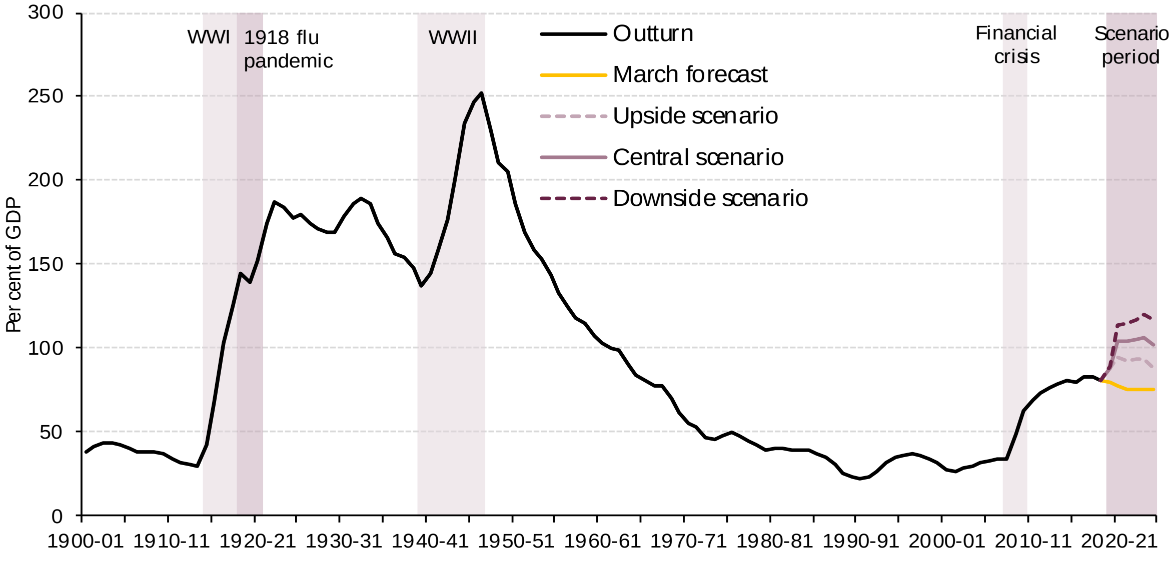
- Update Cabinet on the key issues and potential scenarios for the Councils finances over the medium term period between 2021/22 to 2024/25
- To set out our approach and to addressing the financial challenges over the medium term and managing short term uncertainty.

3. Background

COVID -19 National Picture – Impact on Economy

3.1 The Office for Budget Responsibility (OBR) published its latest Fiscal Sustainability Report on public finances in July 2020. It confirms that the COVID-19 pandemic crisis delivered "one of the largest ever shocks to the UK economy and public finances". Using Gross Domestic Product (GDP) as a measure of the health of the economy the report states that based on data for April and May 2020, the UK could record its "largest decline in annual GDP for 300 years". The subsequent economic recession results in unprecedented peace time government borrowing, with debt rising to 100% of GDP as illustrated in Chart 1.

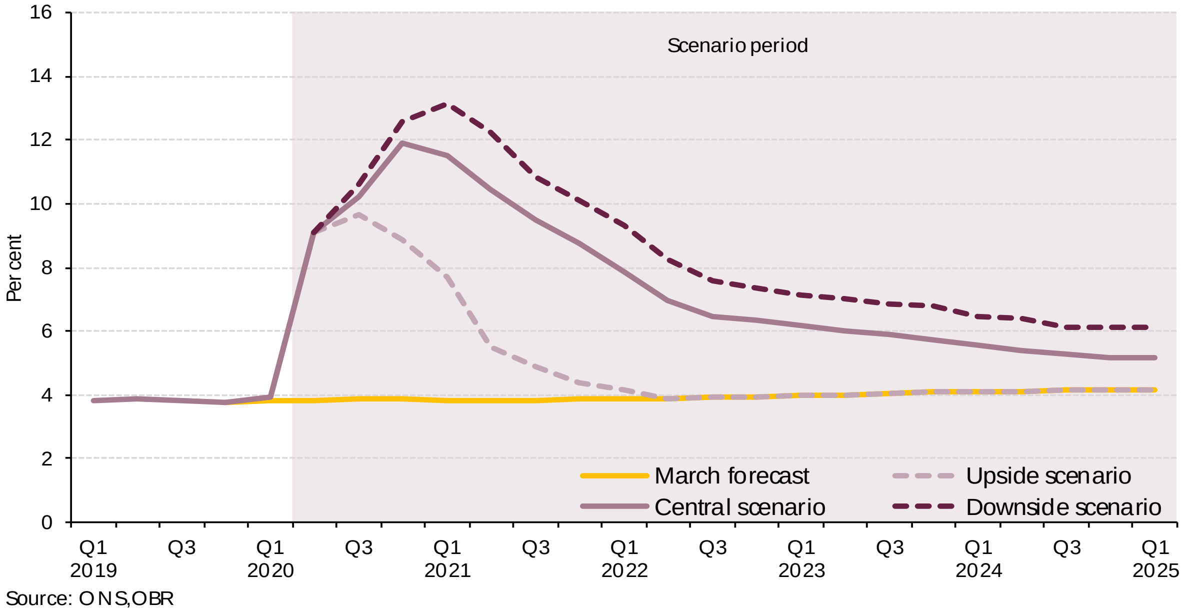
Chart 1 – Public Sector Net Debt



Source: Bank of England, ONS, OBR

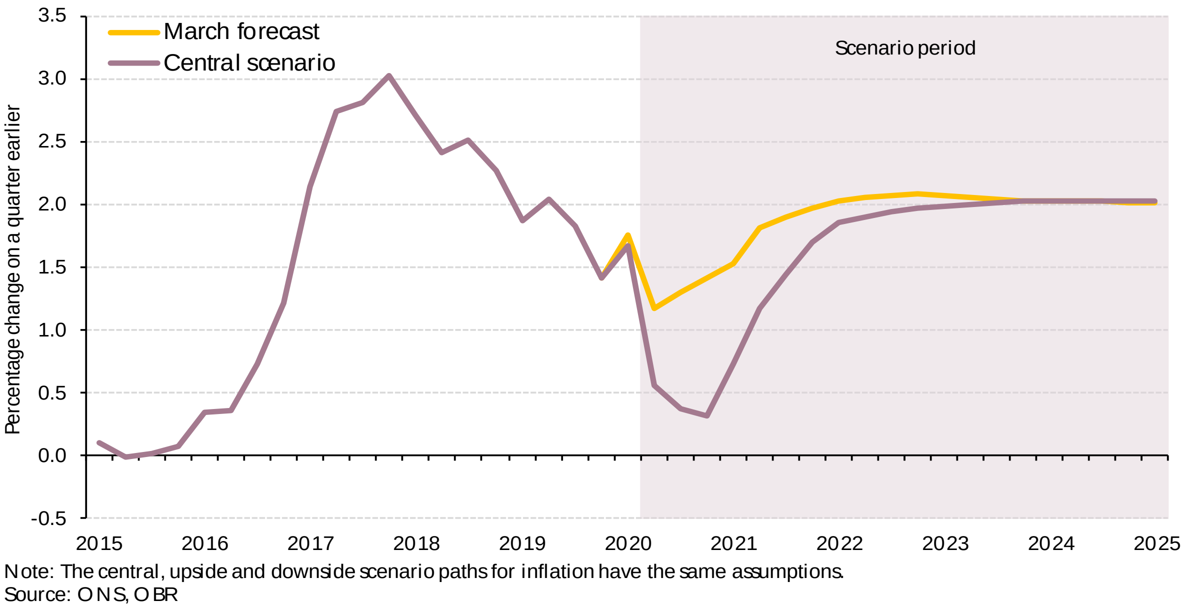
3.2 The OBR is predicting that unemployment will continue to rise and persist in the medium term as the impact of the phasing out of the Coronavirus Job Retention Scheme (CJRS) is felt. Sustained unemployment will lead to higher level of claims for Council Tax Support (see para 3.25) and the need for increased support for vulnerable residents.

Chart 2 – Forecast Unemployment Rate



3.3 In terms of inflation, the Consumer Price Index (CPI) has been reducing in the near term, partly because of a reduction in energy and utility bills. In June 2020 it was 0.6%. The OBR is forecasting that over the medium term CPI will return to the Government's target of 2%.

Chart 3 – CPI inflation forecast



National Picture – Support for Local Government

3.4 To date the Government has provided £3.7bn of emergency financial support through the Local Support Grant to local authorities to address pressures caused by COVID-19. Milton Keynes allocation is £15.756m. This has been informed by the monthly data returns submitted to the Ministry for Housing and Local Government (MHCLG) on the financial impact of COVID-19.

3.5 The Government announced in July 2020 some further financial support measures for local government to help offset some of the financial impact in 2020/21 with local government shouldering some of the financial impact from COVID-19. We are still awaiting further details on these measures as the time of writing this report, they include:

- Income Support Scheme – the government will fund 75% of the losses on fees and charges income above a 5% threshold *our financial outlook scenarios include assumptions on how we understand that this is likely to work.
- Phased repayment of Collection Fund deficits over 3 years. This requires a change in regulations and is designed to give Councils more time to make good actual losses in 2020/21 but will increase budget deficits in each of the following 3 years.
- Commitment to determine what support is needed to help local authorities with irrecoverable tax income. We expect details of this to be announced with the Spending Review.

3.6 In July the OBR issued a report based on the data from April and May. The report states that despite this level of support there is still an estimated budget shortfall of £6bn in 2020/21, both from higher spending and lower income. The most recent measures announced by the government will have gone some way to reduce this gap since. Importantly the OBR also acknowledges that this financial position could be far worse as the figures are uncertain and will be refined as data is collected.

3.7 The OBR report infers that the pressures identified in 2020/21 are short term, including the impact on local taxation. The assumption that 2021/22 sees a significant improvement is very optimistic and suggests a low expectation of longer-term financial support.

3.8 In addition to the direct support that the Government has provided to Councils, a wider package of support has been given to support business through business rates reliefs and grants, together with sector specific packages for care providers and bus companies. The Council has also received separate ring-fenced funding to support the re-opening of the high street and for the provision of food. These are summarised in Table 2 of Annex M to the Q1 Forecast Outturn report also included in this Cabinet's agenda.

Other Key Issues

3.9 The impact of the COVID-19 pandemic and the subsequent unknown scale of the economic shockwave is clearly the most significant financial issue for the Council. However, we continue to have a number of other significant financial concerns:

- Uncertainty over the level of Central Government funding and delays to the timetable for reform and lack of clear national policy direction.
- The volatility of Business Rate income and the relatively small proportion retained locally, which does not offset demand increases.
- Significant financial pressures due to changing demographics, which creates a rising demand for Council services, in particular for adult and children's social care.
- Continuing financial pressures arising from homelessness and the costs of temporary housing.
- Potential impact of Brexit, including a no-deal Brexit, on the UK economy and how this might translate locally.
- The impact of real inflation on public services which exceeds the government measure of CPI.

Medium Term Financial Outlook

3.10 The current Medium Term Financial Plan (MTFP) was set in February 2020 ahead of the COVID-19 pandemic crisis. In light of the current situation we have not completed a full refresh of the MTFP due to the significant uncertainties which exist. A refresh of corporate planning assumptions, demand management and demography will be done nearer to setting the Draft Budget when we have a clearer view of the impact of key factors. We have extended the MTFP by a further year to 2024/25 using the same base assumptions in the current MTFP. A summary of the key planning assumptions used in the MTFP are set out at Annex A.

3.11 The MTFP set in February 2020 is summarised in Table 1.0.

Table 1: Medium Term Financial Plan + 1 Year (February 2020)

	2020/21 £m's	2021/22 £m's	2022/23 £m's	2023/24 £m's	2024/25 £m's
Government Funding Adjustments	(9.425)	11.284	(0.145)	0.970	(1.000)
Other Funding Sources	(18.093)	3.100	(4.735)	(4.872)	(4.900)
Pay, Contract & Other Inflation	5.797	5.560	5.329	5.464	5.579
Budget Service Pressures	9.210	5.771	4.158	4.162	4.189
Budget Delivery	14.023	(13.329)	(0.694)	0.000	0.000
Corporate Measures	4.684	(6.559)	0.517	1.027	1.000
One-off Pressures	1.311	0.779	0.300	0.050	0.000
Total Pressures	**7.507**	**6.606**	**4.730**	**6.801**	**4.868**
Capital Financing Costs	(2.500)	(1.500)	2.000	0.000	0.000
Total Service Budget Reductions & Income Proposals	(3.696)	(2.216)	(0.978)	0.000	0.000
Less Reserves applied to one-off pressures	(1.311)	(0.779)	(0.300)	(0.050)	0.000
Net Ongoing Position	**0.000**	**2.111**	**5.452**	**6.751**	**4.868**
Cumulative	**0.000**	**2.111**	**7.563**	**14.314**	**19.182**

Budget Scenarios

3.12 Due to the level of uncertainty of the impact of COVID-19 on the Council's finances we have created a financial model based on three potential budget scenarios, a low, medium and high impact. These are summarised in Table 2 and detailed in Annex B, together with the key issues and risks that we will need to assess ahead of presenting the draft budget proposals.

Table 2: Three Budgets Scenarios to 2024/25

Impact	2020/21 £m's	2021/22 £m's	2022/23 £m's	2023/24 £m's	2024/25 £m's
Low	(0.978)	17.849	21.884	27.260	30.978
Medium	11.413	28.485	29.095	35.046	38.764
High	23.972	45.785	46.445	53.546	59.114

3.13 This estimated gap includes the £15.756m received from Government (2020/21 only) to date from the COVID-19 Local Authority Support Grant and an estimated grant entitlement from the Income Support scheme (2020/21 only). The potential benefit of the spreading of the Collection Fund deficit over 3 years ends in 2023/24. The above scenarios do not take into account the option of spreading the potential collection fund deficit from 2020/21 over the following 3 financial years. This will be assessed as part of the draft budget.

3.14 The scenarios will continue to be refined and updated.

Government Funding

3.15 At the time of setting the budget and MTFP in February 2020 the level of government funding was already uncertain beyond 2020/21 and a significant risk to our longer-term planning. The COVID-19 pandemic has further increased this uncertainty with the Government already postponing several planned reforms:

- Fair Funding Review delayed to at least 2022/23
- Move to 75% Business Rates Retention delayed beyond 2021/22
- Revaluation of Business Rates postponed to April 2023

3.16 Originally outlined in the March 2020 Budget but delayed due to COVID-19, the Chancellor of the Exchequer launched his Comprehensive Spending Review into public spending in July. The review will set the Government departments' resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25.

3.17 The Chancellor did not reference total spending budgets. He indicated that there would be real-term growth for the NHS and social care but to fund this there would be tight settlements for other public spending areas including local government and "tough choices" to be made.

3.18 An interim report will be published this Autumn, followed by a final report in Spring 2021. Representations are invited until 24th September 2020.

3.19 In his March 2020 Budget, the Chancellor also published the terms of reference for a fundamental review of the business rates system. A call for evidence was launched in July with an October deadline. Preliminary conclusions from the review are expected in the Autumn, ahead of final conclusions in Spring 2021. Through this review the government is seeking views on how to:

- reduce the overall burden on businesses from business rates

- identify practical reforms that can improve growth and the sustainability of public finances
- explore alternative systems of taxation
- understand the impacts of COVID-19 on the business rates system

The structure of the local government funding system, including any changes to Business Rates Retention, is outside of the scope of this review.

3.20 There is also continued uncertainty associated with other significant Council funding streams, notably the Better Care Fund, Improved Better Care Fund, Public Health Grant and New Homes Bonus.

3.21 It is highly likely that we may not get any clarity of funding levels until the Provisional Local Government Settlement in December.

3.22 It is very difficult to predict ongoing resources over the medium-term. Based on our medium impact budget scenario model we have estimated future resources. Core grant is assumed to continue in line with previous assumptions. This is based on cash flat (real terms cut) but for this to continue over the medium term, with the exception of New Homes Bonus which we have assumed will be phased out and the funding lost.

3.23 We have forecasted a recovery of tax income in 2021/22 and 2022/23 from a sharp drop in revenues in 2020/21. This will need to be revisited once government have confirmed what support arrangements will be made available in the Autumn and further data is available of the impact on our tax base and collection rates. An allowance has been made for the Business Rates reset (to be confirmed) and for our base to grow beyond this, although not to previous levels.

Table 3: Government Grant & Taxation 2021/22 – 2024/25 (Medium Impact)

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Revenue Support Grant	(5,592)	(5,592)	(5,592)	(5,592)
Retained Business Rates	(43,064)	(44,064)	(45,964)	(45,964)
Council Tax (including parish precepts	(128,372)	(136,032)	(144,540)	(147,640)
Public Health Grant	(11,562)	(11,562)	(11,562)	(11,562)
Use of New Homes Bonus	(2,751)	(1,970)	0	0
Total Ongoing Resources	**(191,341)**	**(199,220)**	**(207,658)**	**(210,758)**
Resources - estimated February 2020	*(204,741)*	*(210,020)*	*(214,258)*	*(217,958)*
Reduction	**13,400**	**10,800**	**6,600**	**7,200**

3.24 At this time we are assuming for the Revenue Support Grant and Public Health Grant that allocations remain at the current level. For new Homes Bonus the assumption remains that there will be a phased reduction to zero by 2023/24.

Local Taxation

3.25 As illustrated in Table 3 above there is a significant risk to the council's finances due to the impact of COVID-19 on both the size of the tax base and our ability to collect revenue. We have no way of knowing with any certainty at this stage how significant the impact of COVID-19 on the collection of local taxation income will be or how long it will take to recover, so we have modelled our budget scenarios based on potential changes to

- tax base growth
- Non – collection rates
- Council Tax Reduction (CTR) levels

3.26 These are summarised in Table 4 and the assumptions used detailed in Table 5.

Table 4 – Funding Projections (Council Tax and Business Rates)

	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
Funding - High Impact	22 100	(1 800)	(4 100)	1 800	1 900
Funding - Medium Impact	13 400	(2 600)	(4 200)	600	0
Funding – Low Impact	6 700	(2 600)	(800)	0	0

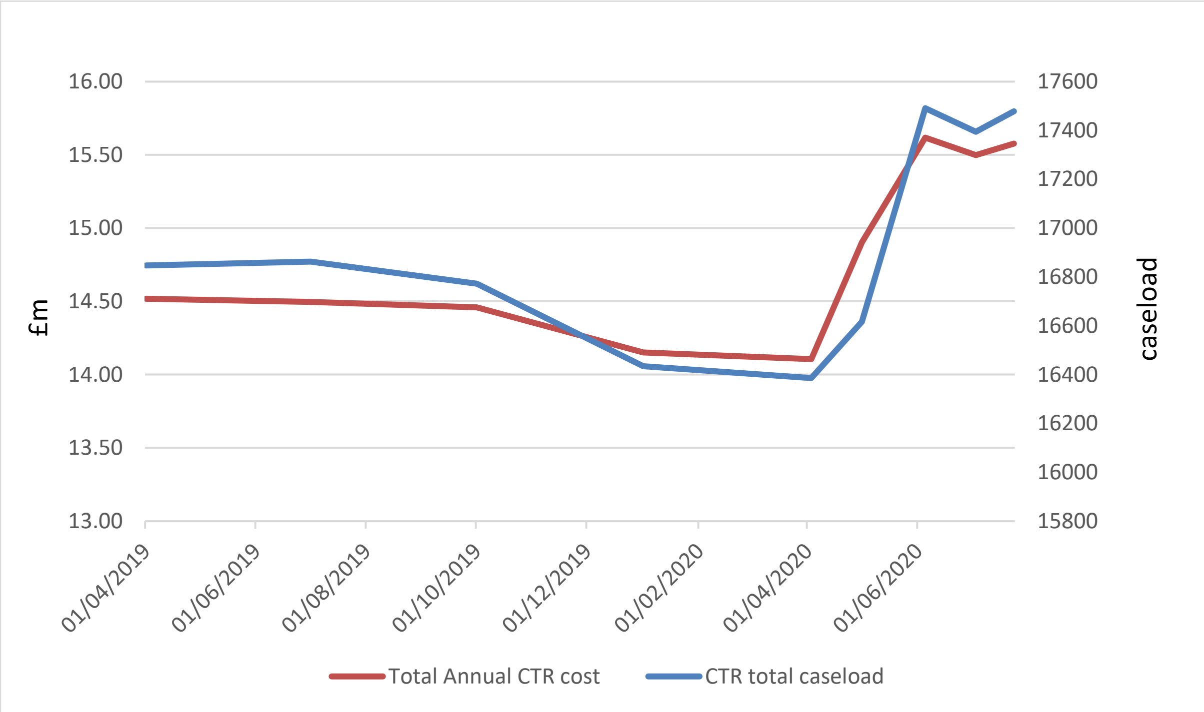
Table 5 – Funding Assumptions

	Council Tax	Business Rates
High Impact	Council Tax Reduction (CTR) - 6,000 additional claims in 2020/21 and remaining at this level in future years.	Growth - Yr1 no growth in additional properties, Yr2+ loss growth £1m pa against base
	Housing growth - yr1,500, yr2+ 1000	Empty Property Relief Cost increased by 75% on 2019/20 level.
	Reduced collection rate by 7.5%	Reduced collection Rate by 7.5%
Medium Impact	CTR- 4,000 additional claims - 20 % reduction 21/22+	Growth - zero growth I extra properties
	Housing growth - Yr1 1250, Yr2+ 1500	Empty Property Relief – Yr1 33%, Yr2+ 20%
	Reduced collection rate by 5%	Reduced collection rate by 5%
Low Impact	CTR – 3,000 additional claims - 50% reduction 21/22 & 22/23 returning to pre-covid level in 22/23.	Growth as per current MTFP assumptions (£1m pa)
	Housing growth - 1,500 pa	Empty Property Relief - Yr1 25% extra , Yr2+ 10% extra
	Reduced collection rate by 2.5%	Reduced collection rate by 2.5%

3.27 As previously referenced downturns in the local economy and higher unemployment rates could increase the need for local Council Tax support. Since April we have seen a significant increase in CTR caseload as illustrated in

Chart 4. The 7% increase in the first 9 weeks is the equivalent to a £1.6m drop in the value of MKC's share of the Council Tax base.

Chart 4 – CTR Caseload and Annual Cost



3.28 This will be carefully monitored in the months ahead as the CJRS is phased out and unemployment is expected to rise. Changes in CTR impact the tax bases of all preceptors and will therefore also impact on Parish and Town Councils.

3.29 Collection rates for both Council Tax (-1.02%) and Business Rates (-3.6%) have dropped compared with the same point last year (after taking account of government reliefs). It is difficult at this stage to draw any firm conclusions, given it was necessary to both rebill a lot of taxpayers and recovery action was suspended. We have now restarted recovery work, although it is too soon to draw any meaningful conclusions at this stage.

3.30 *Review of Savings - Refocused Transformation Programme*

3.31 In February 2020 £6.890m service savings were approved over the medium term, including £3.696m in 2020/21. A large proportion (£5.500m) related to the Transformation Programme. In response to the disruption caused by the COVID-19 crisis the programme was reviewed as part of a wider Management Action Plan, with a change in focus and time scale. Table 6 provides a summary.

3.32 **Table 6: Transformation Programme**

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Property Commercialism	500	500	250	1,250
Management Restructure	500	250	0	750
Social Care & Homelessness	250	250	500	1,000
Older Peoples Services Demand	500	0	0	500
Customer Services & Digital	250	750	0	1,000
Organisational Efficiency	100	0	0	100
Operational Property Savings	0	250	150	400
Rapid Service Reviews	250	250	0	500
Total	**2,350**	**2,250**	**900**	**5,500**

3.33 One-off funding of £3.717m has been set aside to support the transformation programme.

3.34 Work has commenced on all of these initiatives; examples include,

- **Property Commercialism –** The Council is working with MKDP to deliver growth in revenue streams through its investment in development and property acquisitions within Milton Keynes which contributes to the continued growth of the borough. The first of these developments is underway. An income target of £0.500m is planned to be delivered in 2020/21.

- **Corporate restructure** - review of the top 3 tiers of the management restructure completed (£0.536m saving to date). The target for 2020/21 has been fully delivered.

- **Social Care & Homelessness** – Older People services savings planned for 2020/21 of £500k have been fully delivered through improved demand management actions. Work is progressing in homelessness to improve our approach to prevention and reduce the use and cost of using temporary accommodation. By the end of quarter 1 this was on track with spending tracking below budget and numbers in temporary accommodation on a downward trajectory. The impact of COVID-19 has impacted, in particular in social care with significant disruption. Despite this the Council has continued to deliver key services and new demand.

- **Customer Services and Digital Transformation –** We are rapidly expanding and repurposing our customer contact centre into a local help hub, with a greater emphasis on phone access and offering more than the current range of services (for example handling the initial contact from people who are at risk of being made homeless) and with the capacity to grip and resolve problems rather than signpost. A review of demand (current and future) is in progress to identify the level of savings that can be delivered in 2020/21. Planned savings were deferred due to the impact of COVID-19 and increase in demand for support, with an additional 4 staff redeployed into the team to help manage this.

- **Organisational Efficiency** – In year savings are being achieved to deliver this through a rationalisation of non-essential spend. This target will be exceeded in 2020/21 as part of a wider approach to mitigate new unfunded budget pressures arising from COVID-19.

- **Operational Property Savings** – continue to review the council's operational asset portfolio and explore the benefits of increased home working

- **Rapid Service Reviews** – programme currently underway to consider how services will operate following changes in demand and delivery as a result of COVID-19. An interim review will report to CLT in September to consolidate the learning from this and highlight actions to deliver future savings through improved efficiency.

3.35 To date £1.036m savings have been achieved. Work will continue on delivery of the savings in the Management Action Plan and a further update will be included in the Draft Budget report for December Cabinet.

Budget Approach

3.36 The approach adopted to budget setting in recent years was based on an incremental approach, built around a base budget with revised pressures and savings. In past years the Council has been able to identify with a high degree of confidence any potential gap in the budget and develop proposals which enable a balanced budget to be set. In light of the current situation we are not able to take this approach. As already highlighted in this report there is no certainty over the level of funding that we will receive from government beyond 2020/21, our levels of taxation income are uncertain and our ability to adjust our budget to reflect the wider impact of COVID-19 on services is not clear. There is also the potential for further disruption from local outbreaks which could impact significantly on the finances of the authority.

The past approach will not be enough to build a robust and legal budget for 2021/22 and beyond under the current circumstances.

3.37 To ensure that the Authority can set a legal budget, we must be able to respond to a range of different scenarios. It will also be essential that careful management of reserves is maintained to ensure that variations can be managed. In the short term the Council should look to preserve reserves and continue to make non-essential in year reductions to maintain flexibility for 2021/22.

3.38 There are a range of options set out below for managing the future budget. The Council has different levels of control over these. The impact and timing also presents certain constraints. The work on the 3 budget scenarios has identified a wide variation in the potential size of the financial gap.

3.39 Directors are currently undertaking a high-level options review for each service area. We will be reviewing these with Cabinet to understand how these might be realigned in each of the different financial scenarios.

3.40 We will also be working on developing further proposals in relation to each of the budget building blocks below. Ultimately the draft budget proposals will include a combination of these. If the budget deficit is towards the high impact scenario then the work on service reductions will be more critical in delivering a balanced budget in 2021/22.

Figure 1 – Budget Choices

Service Reductions	Capital Investment & Growth	Organisational efficiency
Pricing and Charging Models	Asset Rationalisation	Demand Management
Local Taxation	Corporate Financing Options	Right sizing Central Support & Management Structures

Review of Reserves

3.41 We have completed a review of reserves to identify the level of one-off funding that the Council could potentially use to mitigate the financial impact of COVID-19. The government has already confirmed that Councils will have to shoulder part of the losses to fees and charges income and that certain income losses will not be eligible for any government support. Details of this are still to be confirmed.

3.42 The review has identified that there is an uncommitted balance in earmarked reserves of £4.157m and in addition a further £3.5m of uncommitted Social Care Grant. This funding is one-off and should be viewed as a backstop option considering the potential risks for 2021/22. **These funds have been moved into a separate 'COVID-19' reserve to help support the Councils budget position**.

3.43 The Council also has a working balance of £22.9m. This is only slightly above the minimum recommended level. In the current situation it may be necessary to temporarily use some of this funding to help manage the future budget challenges. However, in order to ensure that the Council can set a legally robust budget any use of this would need to be accompanied with a clear plan on how this balance would be restored in the future.

Dedicated Schools Grant

3.44 2021/22 is the fourth year of the National Funding Formula (NFF) for schools and high needs. In late July 2020 an early indicative funding allocation was received for the 2021/22 financial year, but some areas are yet to be confirmed and all areas of funding will be subject to a recalculation based on October 2020 census details. The following table shows the indicative funding allocation on a like for like basis (i.e. assuming no changes to pupil data). Full funding information is expected in December 2020 which does make budget planning and formula setting challenging (particularly as we are required to consult with schools in advance of final information).

3.45 Table 7 - DSG Indicative Allocations

DSG Allocation	Schools Block	Central Schools Block	High Needs Block	Early Years Block	Total
	£m				
2020/21 DSG*	200.398	1.496	44.506	21.651	268.051
2020/21 Teacher Pay & Pension	10.357	0.000	0.725	0.000	11.082
2020/21 Total Funding	**210.755**	**1.496**	**45.231**	**21.651**	**279.133**
2021/22 DSG	215.853	1.540	48.751	21.651	287.795
Increase	**5.098**	**0.044**	**3.520**	**0.000**	**8.662**

- Excludes growth funding

3.46 Local Authorities continue to have flexibility in the distribution of the funding formula; however, government expect LAs to transition to the NFF ahead of a hard formula implementation. Milton Keynes currently matches the formula in full, with a small exception on the basic per pupil factor, which due to pressures on growth funding, had to be reduced (see 3.44). The government will shortly put forward proposals to move to a hard NFF in future which will determine schools' budgets directly.

3.47 From 2021/22 the teachers' pay and pension grant (that had previously been paid out to schools directly, in the form of a grant), will now be incorporated into the main DSG (the schools block for mainstream schools and the high needs block for special and alternative provision settings) and passed through to schools through the respective funding formulas. Although this will appear to show an increase in the DSG allocation, this is not an additional funding increase overall.

3.48 The following announcements have been made on the Schools Block:

- School funding through the NFF is increasing by 4% overall in 2021/22. Key factors in NFF will increase by 3% and the minimum per pupil funding will also be increased to £4,000 for primary schools (£3,750 2020/21) and £5,150 for secondary schools (£4,800) – this increases to £4,180 and £5,415 with the inclusion of the teacher pay and pension grant mentioned above. There will be additional funding for small and rural schools as part of the national allocation, although it is expected that this will only impact two schools in MK.

- Deprivation indicators have now been updated to 2019 data (previous 2015). This could result in some changes at individual school level and the outcome of this will be known in greater detail once the October 2020 census details are updated.

- There are ongoing reductions in growth funding (£1.0m per year) which together with other pressures regarding pupil demographics meant schools funding had to be top sliced to manage within the overall funding envelope in 2020/21 (a top slice of 0.2%). This remains a concern for 2021/22 given the further reduction in funding and growth is a one of the areas where we are awaiting further information. The top slice in 2020/21 was funded by a reduction to the general per pupil funding across all schools, as a proposal to reduce the new minimum per pupil mandatory requirement was declined by the DfE.

- Recently announced proposed teacher pay increases are expected to be met from school budgets, within the funding increases above – it is not anticipated that there will be any additional funding increases over and above the NFF increases already outlined.

3.49 In the high needs block, there have also been national increases to the baseline of between 8-12% which is largely allocated based on population data and demographics. The allocation for MK is expected to be 8%, £3.5m. Whilst this increase sounds significant, demand pressures continue to increase and in 2019/20 our expenditure exceeded our funding allocation resulting in using £0.5m of reserves, which is not sustainable even in the short term.

3.50 In the early years block, funding announcements are anticipated later in the calendar year. The main concern in this area is how the impact of Covid-19 will affect the funding allocation, given that funding received is based on take up at January census date and as this is not a compulsory area of education, we could see reductions in take up.

Housing Revenue Account

3.51 The Draft HRA Business Plan has been refreshed and together with the Asset Management Plan and 30 Year Financial Model are set out in a separate item on this Cabinet Agenda. These documents are all still subject to consultation with tenants and leaseholders as well as further work to finalise the financial projections and external due diligence. The final version of these documents will be presented to Cabinet in December and will be used to inform the HRA budget.

3.52 The Council has significant investment plans and is looking to extend these to improve the existing stock and availability of affordable social housing. This will require significant levels of investment and the need to increase borrowing within the HRA. As part of the work on updating the HRA Business Plan we have reviewed the Councils Treasury Management Policy. Details of this are set out in the HRA Business Plan Refresh item and annexes on this agenda. In summary we are proposing some key changes to how the Council manages its debt financing costs, the need to set new prudential indicators for the HRA and adoption of Voluntary Minimum Revenue Provision on new investment. The final limits will be proposed as part of the Draft Budget item in December and will apply from 2021/22.

3.53 Within the current HRA Business Plan:

- Council tenants will increasingly benefit from the £165m 5-year investment programme which has commenced this year, and the HRA will continue to grow as the New Build and Acquisition programmes adds to the stock faster than RTB sales deplete it.

- Rents charged have, after four years of government-imposed 1% cuts, reverted to CPI + 1% from April 2020. This will enable resources to be deployed to support the long-term sustainability of the HRA through planned maintenance, stock increases, and regeneration.

- Rent collection rates will come under increasing challenge as Universal Credit is rolled out to replace Housing Benefit, and other aspects of Welfare Reform continue to impact on tenants.

- The costs of regeneration, initially of the Lakes Estate and Fullers Slade, are still uncertain, though they will become clearer as schemes move closer to fruition. The costs of regenerating these estates will need to be managed in order to maintain financial capacity to regenerate other priority areas.

3.54 The abolition of the HRA Debt Cap, in October 2018, will give the council the financial capacity to increase investment in the stock over the longer term, subject to the affordability constraints of the Prudential Code. The Capital Strategy and Treasury Management Strategy will be updated to reflect this.

3.55 The HRA Business Plan is expressed through the Business Plan Model with inflation assumptions built in. The MTFP figures in the following table are at current prices consistent with those elsewhere in this report.

Table 8 – HRA MTFP

HRA Budgets	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Expenditure	46.33	46.62	47.06	47.30
Income	(56.18)	(57.57)	(59.04)	(60.56)
Net Spend	**(9.85)**	**(10.95)**	**(11.98)**	**(13.26)**
Capital Transfers	9.85	10.95	11.98	13.26
Net Surplus/Deficit	**0.00**	**0.00**	**0.00**	**0.00**

Capital

3.56 A detailed review has been undertaken to rebase the 2020/21 capital programme, taking into account slippage from 2019/20 and current delivery projections. The revised position and the steps undertaken are reported in the 2020/21 Quarter 1 Forecast Outturn report elsewhere on this cabinet agenda.

3.57 Capital allocations where confirmed have been included within the financing of the existing capital programme, together with assumptions on future capital receipts and other financing.

3.58 The Council has committed all currently available resources to finance the existing capital programme. In December we will be bringing forward proposals to extend the current capital programme by a further year, based on known or projected government ring fenced funding. We will be working with Directors ahead of this to identify future key strategic capital investment need and refreshing the Capital Programme Pipeline. Cabinet should note that the current Capital Programme Pipeline has a funding gap of £6.079m and we expect this to increase further. This will need to be reviewed and prioritised in light of wider budget restrictions.

4. Implications of the decision

Financial	Yes	Human rights, equalities, diversity	No
Legal	No	Policies or Council Plan	Yes
Communication	No	Procurement	No
Energy Efficiency	No	Workforce	No

a) Financial implications
This report does not involve any new budgetary considerations but does provide our latest view on the financial context and approach to how the Council will set a balanced and deliverable budget for 2021/22 and over the medium term.

b) Legal implications

The Medium term Financial Outlook sets the financial context and does not set the Budget; as such there are no legal consequences for this report. The Budget will be set by Council in February 2021.

c) Other implications

This report itself does not have equality and diversity implications; however, the individual budget proposals which will be proposed as part of the annual budget process will potentially have an impact. As part of the draft Budget, equality impact assessments will be developed and considered.

5. Timetable for implementation

- November 2020 – Council Tax Base report Delegated Decision
- 15 December 2020 – Draft Budget & Capital Programme report to Cabinet