Delegated Decisions report

milton keynes council

21 December 2021

DRAFT COUNCIL BUDGET 2022/23 AND MEDIUM TERM FINANCIAL PLAN 2022/23 TO 2025/26

Name of Cabinet Member	**Councillor Rob Middleton** (Cabinet member for Resources)
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Exempt / confidential / not for publication	**No**
Council Plan reference	**1 – Balanced Budget**
Wards affected	**All wards**

Executive Summary

This report sets out the draft Milton Keynes Council (Revenue) Budget for 2022/23, the latest Medium Term Financial Forecast for the period 2022/23 to 2025/26, estimated schools funding, the draft Capital programme for 2022/23 to 2025/26 and the draft Housing Revenue Account Budget for 2022/23. The public consultation on these draft documents commenced on 13 December 2021.

This draft Budget proposes a below-inflation 1.99% General Council Tax increase, plus an increase of 1.76% in our Adult Social Care Precept which is earmarked to help offset part of the rapidly increasing cost of providing adult social care services.

This draft budget for 22/23 is proposed with the following local and national backdrop in mind:

1. Since the start of the year, inflation in the UK has risen significantly leading to an additional £6m of cost to the Council in delivering frontline services. This includes an extra £0.7m to cover the significantly increased cost of gas and electricity in the UK.

2. Since the start of the year, a significant increase in demand pressures for both Adults and Children's social care has led to additional forecasted costs of £5m.

3. Confirmation by the Government through their Social Care Announcement that Local Councils will continue to be expected to meet the rising cost of additional demand for Adult Social Care from their own budgets. The National Insurance increase of 1.25% will not be made available to cover this rising cost.

4. Income to the Council from fees and charges generated by our services remain significantly below pre-pandemic levels (£6m).

5. The Bank of England (BOE) now forecasts inflation will rise even further peaking at 5% in the first quarter of 2022, a figure 250% above the 2% inflation figure the BOE would expect to see in the UK economy. The impact of inflation and other government support ending for residents is now a significant concern as we look to balance next year's budget.

In February 2021 the MTFP was published (subsequently refreshed in September 2021) and assumed an increase of 4.48% in 2022/23 to the Councils share of Council Tax. The draft budget currently proposes the increase is contained to 3.75%. This will mean a reduction of £0.967m to our previously assumed income estimate. The expected maximum allowable increase (subject to confirmation in the LGFS without a referendum) is 5.48%. An increase at this level would generate an additional Council Tax yield in 2022/23 of £2.291m compared with 3.75%.

The details in this report have been prepared in accordance with the framework set out in the Medium Term Financial Outlook approved by Cabinet in September 2021.

The goal of this budget is to balance MKC's budget over the coming year and support the Council in achieving a sustainable financial position over the medium term, whilst continuing to deliver the Progressive Alliance's priorities as set out in the adopted Council Plan.

1. Decisions to be Made

1.1 That Cabinet notes and endorses the following draft budget proposals, which are subject to the outcomes of consultation, which commenced on 13 December 2021, and confirmation of the Local Government Finance Settlement. The decision includes noting the Capital Programme and additional schemes to be added to the programme with it noted that the decision to release funding will be made by the s151 Officer once confirmation of available funding has been received:

(a) the draft Revenue Budget for 2022/23 (**Annex F**) and latest MTFS forecast for 2022/23 to 2025/26 (**Annex E**);

(b) the provisional Council Tax at Band D of £1,520.55 for the Milton Keynes element of the Council Tax be agreed for consultation, a 3.75% increase on the previous year (1.99% plus a 1.76% Adult Social Care Precept);

(c) the Council's current estimate of the 2022/23 Business Rates Baseline, retaining the delegation to the Director - Finance and Resources to finalise this Baseline, based on the latest data for submission to Department for Levelling Up, Housing and Communities (DLUHC) in January 2022;

(d) the estimated position for the Dedicated Schools Grant and the planned consultation with schools and the Schools Forum;

(e) that the Director - Children's Services make decisions around the school funding formula, the funding arrangements for pupils with high needs and the early year's single funding formula for 2022/23 in consultation with the Cabinet Member for Children and Families and the Director for Finance and Resources (Paragraphs 2.58 – 2.63);

(f) the draft Housing Revenue Account Budget be updated for technical adjustments and revenue pressures and savings, including a rent increase of 4.1% (**Annex H**);

(g) the proposed fees and charges for 2022/23, which are exceptions to the Income and Collection Policy (**Annex D**);

(h) the draft forecast parking surplus of £5.636m (**Annex G**);

(i) the draft Capital Programme for 2022/23 to 2025/26 (**Annex I**);

(j) the resource allocation for the draft Tariff Programme. (**Annex J**); and

(k) the equalities impact assessments for the draft Revenue Budget 2022/23, as set out in Section 3.

2. Why is the Decision Needed?

2.1 The purpose of this report is to:

- ensure that the Council meets its legal obligations to set a robust balanced budget for 2022/23;
- update and extend the Council's financial forecasts for the period 2022/23 to 2025/26; and
- to set out our approach to addressing the financial challenges over the medium term and managing short term uncertainty.

2.2 The Council has a clear ambition as set out in the Council Plan and has made a commitment to continue to grow and enhance Milton Keynes through the MK Futures programme. These commitments are alongside the continued financial challenges for the Council.

COVID-19 Scarring

2.3 During 2020/21 the Council received significant financial support from government to manage the financial impact on our budget. This support met the additional costs and loss of revenue that arose throughout 2020/21. By the end of June 2021, government support ended. The impact of COVID-19 has however continued and it has become clearer in recent months as both demand pressures have risen, whilst income in a lot of services has continued to remain well below pre-pandemic levels with changes to both customer behaviour and businesses responding to the changing economic dynamic.

2.4 The 2022/23 draft budget reflects an estimated £2.7m of additional costs and continuing £6.1m of lost income which is as a result of the impact of COVID-19. This cost will ultimately need to be funded through future budget cuts and or higher taxation. We understand from government that no further support will be offered to Councils to manage the impact of COVID-19.

2.5 The longer term impact of the COVID-19 pandemic and the unknown scale of the economic recovery, both nationally and locally, is clearly the most significant financial issue for the Council. However, we continue to have a number of other significant financial concerns:

- the future of the Fair Funding Review and Business Rates is unknown;
- the volatility of Business Rate income and the relatively small proportion retained locally, which does not offset demand increases;
- the impact of real inflation on public services which exceeds the government's target for CPI. If these pressures are not transitionary then there will be further impacts on the MTFP forecast set out in this report;
- the Councils budget in key areas of demand is not clear and there remain-significant questions about future changes, timing and scale, in particular for adult and children's social care;
- continuing financial pressures arising from homelessness and the costs of temporary housing;
- the cost pressure of the National Living Wage for Care Providers and the Council; and
- reduced income through lower economic activity, behaviour change and increase risks on debt collection.

Budget Approach

2.6 As detailed in the September MTFP refresh our approach to setting a budget for 2022/23 and over the medium term, was based on the following principles:

- any budget deficit in 2022/23 will be addressed through a combination of demand management, improved organisational efficiency and corporate measures;
- all key demand budgets will be reviewed and rebased using the latest available data and insights;
- fees and charges budget will be rebased using the latest available data and service insights; and
- inflation assumptions are updated using the most and up to date indices.

General Resources - Ongoing

2.7 The total ongoing resources forecast to be available over the medium-term are updated in Table 1.

Table 1: Resources 2022/23 - 2025/26

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Revenue Support Grant	(5.730)	(5.845)	(5.962)	(6.082)
Retained Business Rates	(54.474)	(49.981)	(51.907)	(53.907)
Council Tax (including parish precepts	(147.096)	(154.866)	(162.622)	(170.085)
Public Health Grant	(12.084)	(12.084)	(12.084)	(12.084)
Use of New Homes Bonus	(1.970)	0.000	0.000	0.000
Total Ongoing Resources	**(221.354)**	**(222.776)**	**(232.574)**	**(242.157)**
Estimated Net CSR Funding*	(2.700)	1.000	1.000	0.000
Revised Ongoing Resources	**(224.054)**	**(221.776)**	**(231.574)**	**(242.157)**

*Will be confirmed as part of LGFS

Government Funding

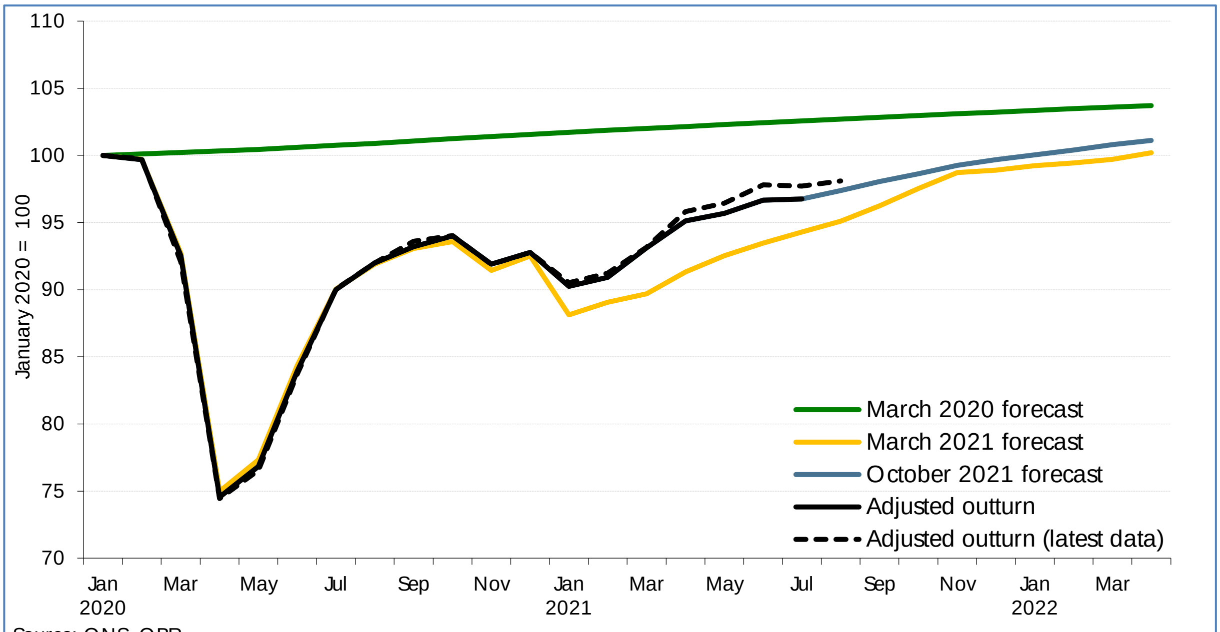
<u>Autumn Budget and Spending Review</u>

2.8 In October the Chancellor announced his Autumn Budget and three year Comprehensive Spending Review (CSR) covering the period 2022/23 to 2024/25. This is the first multi-year settlement since 2018. At the time of preparing the draft budget it is not known whether the Local Government Financial Settlement will be for this period or a single year settlement. This will only be confirmed when the settlement is announced. We currently expect the settlement to be announced between 13 and 17 December 2021.

<u>National Economic Picture</u>

2.9 The economic headlines were more positive than previously announced in March 2021. The Office for Budget Responsibility (OBR) announced improved growth forecasts to 6.5% in 2021, followed by 6% in 2022, and is now expecting less permanent scarring to the economy from the COVID -19 pandemic (2% instead of the 3% that was forecast in March 2021). It is anticipated that any improvement in this position during the SR period would be reflected in reduced taxation, not increased spending.

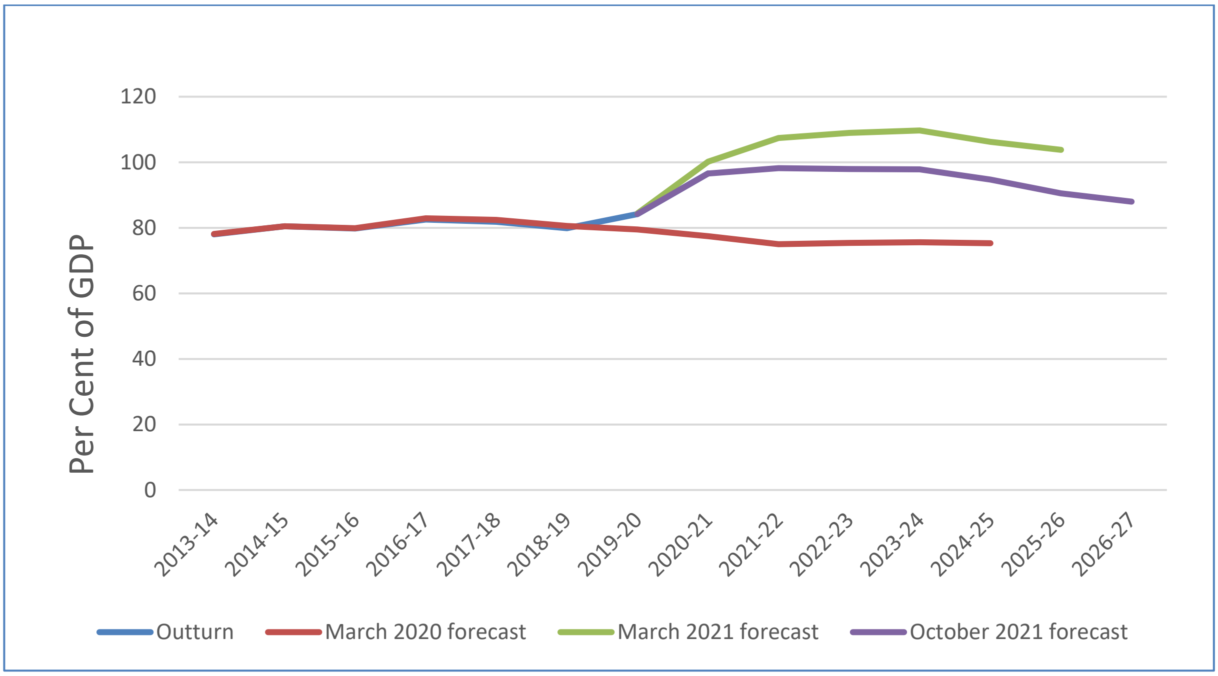
Chart 1 - GDP Monthly Growth Forecast



Source: ONS, OBR

2.10 As a result of dealing with the COVID-19 pandemic government borrowing was expected to rise to over 100% of GDP. Although the borrowing figures are significant, its peak is lower than expected and the future forecasts are also more positive. This is illustrated in Chart 2.

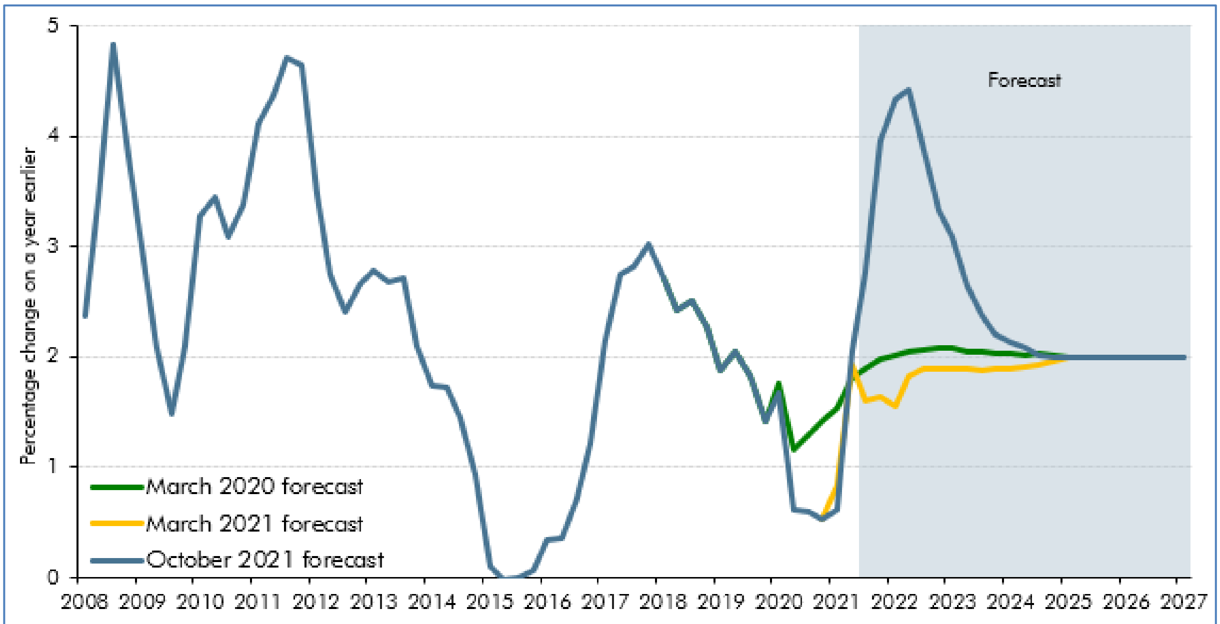
Chart 2 - Public Sector Net Debt



Source: ONS, OBR

2.11 The overall picture is one of an improving fiscal position, albeit from a very difficult place as the economy emerges from the pandemic. There are, however, still significant economic risks and potentially the biggest is the impact of inflation. The Consumer Price Index (CPI) fell sharply during the pandemic but is expected to peak at over 4% in the next 6 months. The October CPI rate was 4.2%. OBR is forecasting it will continue at 4% in 2022 before falling back to 2.6% in 2023.

Chart 3 - CPI Inflation Forecast



Source: ONS, OBR

2.12 Sustained high levels of inflation could see an increase in interest rates which would have a significant impact on the costs of government borrowing. High inflation also has an impact on our cost pressures, and this has been reflected in our refreshed forecasting assumptions (see paragraph 2.37)

<u>Key Headlines from CSR</u>

- New core grant funding of £1.6bn for social care and other services per year over the life of the SR21.
- Expected Council Tax thresholds and 1% Adult Social Care precept announced (see paragraph 2.26).
- Public sector pay freeze to end as return to the independent pay process is confirmed.
- National Living Wage to increase from £8.91 to £9.50 per hour (+6.6%) from April 2022.
- Freeze the business rates multiplier in 2022/23.
- 50% relief for Retail, Hospitality and Leisure Sector for 2022/23, up to a cash cap of £110,000 per business.
- No announcement made on the future of New Home Bonus.
- No decision made on the Fair Funding Review or future Business Rates Retention, although it has now been indicated that a move to 75% retention is unlikely.

- No decision made on the business rate reset, although it is likely this will be deferred.

New Core Grant Funding

2.13 The £1.6bn new funding is front-loaded, with almost all the increase in grant in 2022/23, and very little increase in the two later years (i.e., there will be no incremental growth). This is illustrated in Table 2, together with the social care reforms funding (see paragraphs 2.18 to 2.21).

Table 2: Core Grant Funding

	2022/23	2023/24	2024/25
	£bn	£bn	£bn
Grant - Social Care & Other Services	**1.500**	**0**	**0**
Less specific funding:			
Supporting Families	0.040	0.030	0.020
Cyber Security	0.012	0.001	0
Unallocated	0.048	-0.031	-0.020
Total Grant Social Care & Other Services	**1.600**	**0**	**0**
Social Care Reform	0.200	1.200	0.600
Total Funding (Year on Year)	**1.800**	**1.200**	**0.600**

2.14 It has been confirmed that the additional £1.5bn core funding includes compensation for employers NIC levy for Social Care reforms, NLW increases and inflation on Core Grant. As the £1.5bn includes compensation for the ER NIC increase and other specific funding, the increase is actually significantly lower than the headline suggests.

2.15 There is no detail as to how the new grant funding would be distributed to local authorities and how much would be distributed through either the Settlement Funding Assessment (SFA) or through specific grant. Based on which methodology might be used we have estimated that our share of the £1.5bn could be between £4.4m and £5.7m. If the lower figure is taken Table 3 illustrates the impact on the MTFP and this has been built into our assumptions for the draft budget.

Table 3: Potential Impact of New Core Grant Funding

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Additional Core Funding	(4.400)	0.000	0.000	0.000	(4.400)
Employers NIC Increase	0.700	0.000	0.000	0.000	0.700
Remove RSG/NDR inflation	1.000	1.000	1.000	0.000	3.000
Impact on MTFP	**(2.700)**	**1.000**	**1.000**	**0.000**	**(0.700)**

2.16 Whilst this has provided an indication in terms of likely core grant funding over the next three years and envelope for Council Tax revenues, more significant reforms remain uncertain and in the case of Social Care a potential financial risk for Councils given the huge uncertainty over the future costs and distribution of government grant to fund this. Although we are still awaiting the Local Government Finance Settlement in December, we have now been given a clearer position through the CSR to 2024/25 on our likely funding envelope and our ability to generate additional tax revenue. Both of these have been factored into the latest MTFP projection.

2.17 Whilst the settlement may see change to these numbers, we are not expecting significant changes to baseline funding. An update to this budget report will be provided for the 21st December Delegated Decision, setting out any changes to our funding assumptions following the publication of the Finance Settlement. A further update will be also included in the final Budget report in February 2022.

Adult Social Care Reforms

2.18 In September the Government released its white paper ‘Build back better: our plan for health and social care’ publication. The new measures included:

- from Oct 2023 - £86k cap on personal care costs;
- changes to capital limits so more people eligible for means-tested LA support;
- emphasis on self-funders requesting LAs to arrange care; and
- a national plan for supporting and enabling health and social care integration.

2.19 These measures are to be funded from a new 1.25% Health and Social Care Levy based on National Insurance Contributions (NIC) together with 1.25% additional dividend tax. It was confirmed that the public sector would be separately compensated for the employers NIC increase (see paragraph 2.12). It has since been confirmed that this will be achieved through the LGFS and has been included in the £1.6bn funding allocation.

2.20 The CSR confirmed that the £3.6bn in grant funding for adult social care reform would be split as follows; £200m in 2022/23, £1.4bn in 2023/24 and £2.0bn in 2024/25. This is intended to meet only the costs of reform (the cap on personal care costs and the new means testing) so it is currently assumed to have a net nil impact on our MTFP until we have clarity on the proposals, but there could be overall differences. The profiling on social care grant is to reflect the timelines on the Social Care Reform, which commence from October 2023 and where an element of the historic system is expected to remain in place for existing clients.

2.21 No funding for existing social care services was announced. **The white paper indicated that local authorities would have to fund their demographic and unit cost pressures (including living wage and demand pressures) from a combination of council tax, social care precept and long-term efficiencies.**

Business Rates Baseline

2.22 The Local Government Finance Act 2012 gave local authorities the power to retain a proportion of funds obtained from business rates in their area. The changes under the 'Localisation of Business Rates' mean that from April 2013 local authorities retain a share of the income they collect from business rates, as funding to meet the cost of service provision.

2.23 The DLUHC guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline reflects the authority's estimate of the business rates it forecasts to collect in the following financial year, offset by any reductions such as reliefs and the estimated cost of successful rateable value appeals.

2.24 The calculation of the Council's 2022/23 Business Rate Baseline must be formally approved, and then be submitted to DLUHC, through a statutory return by 31 January 2022.

2.25 Table 4 shows the forecast 2022/23 Business Rate Baseline distributed through DLUHC's funding model. It reflects the additional support to businesses announced at the CSR (see paragraph 2.12). The estimate below assumes that there will be no reset to the business rates system during 2022/23.

Table 4: Business Rates Baseline Distribution

	2022/23 £m
Milton Keynes Council Business Rate Baseline (total business rates collected after deductions)	**(132.6)**
50% Central share paid to Government	*66.3*
1% share paid to Buckinghamshire and Milton Keynes Fire Authority.	*1.3*
Deductions for Tariff paid to Central Government	*28.7*
Levy paid to Central Government/Section 31 grant receivable	*(17.9)*
Renewable energy (100% retained)	*(0.3)*
Milton Keynes Council forecast retained Business Rates Funding	**(54.5)**

Council Tax

2.26 In 2021/22 the Council sets its budget and made use of the ASC Precept, applying a 0.51% increase, rolling over the balance of 2.48% into 2022/23. In the CSR government indicated (to be confirmed in the LGFS) that local authorities could raise their 2022/23 Council by the following:

- Council Tax referendum limit set at up to 2%; and
- 1% Adult Social Care Council Tax Precept.

2.27 Both of these are in addition to the rolled over amount of 2.48%. Therefore, the Council can without a referendum apply a maximum increase of 5.48% in 2022/23. The table below sets out potential Council Tax setting options and demonstrates the level of Band D charge and total estimated income that the Council would generate.

Table 5: Council Tax Setting Options - 2022/23

	February 2021 MTFP	Maximum Increase	Draft Budget
Basic Increase	1.99%	1.99%	1.99%
ASC Precept	2.49%	3.49%	1.76%
Total Increase	**4.48%**	**5.48%**	**3.75%**
Increase £M	(12.016)	(13.341)	(11.050)
Difference from February MTFP £M	**0.000**	**(1.325)**	**0.966**

2.28 The draft budget includes the following Council Tax increases

Table 6 - Council Tax

	2022/23	2023/24	2024/25	2025/26
MKC Band D	1.99%	1.99%	1.99%	1.99%
ASC Precept	1.76%	1.00%	1.00%	1.00%
Total Increase	**3.75%**	**2.99%**	**2.99%**	**2.99%**

2.29 It is proposed as part of these draft budget proposals that the increase for 2022/23 should be restricted to 3.75% (1.99% general and 1.76% ASC Precept). This proposal has been made to limit the impact on residents who are facing significant financial pressures due to rising inflation, fuel bills etc. In limiting the increase at 3.75%, the Council will forego £2.291m in Council Tax income in 2022/23 and £2.654m by 2025/26. **Given the estimated budget gap more extensive service changes / reductions will be needed from 2023/24 in part as a result of limiting the Council Tax Increase to this level. Given the size of the projected budget gap in 2023/24 and risks around the budget, the**

Council will need to ensure it has very tight control over spending in year and progresses with plans to make material reductions to its cost base.

2.30 All Council Tax Base assumptions have been reviewed in light of the estimated bounce back from the impact of the COVID-19 pandemic. This has resulted in a 2022/23 Tax Base of 90,364.51 Band D equivalent properties, an increase of 4,151 from 2021/22. Further details are available in the Tax Base report presented to Cabinet on 2 November.

2.31 Overall Council Tax income is anticipated to increase by £11.050m in 2022/23; this total comprises £4.967m generated from a 3.75% increase to the charge, and an increase of £6.083m arising from the increased Tax base.

General Fund Expenditure

Budget Changes

2.32 A number of corporate assumptions were refreshed in the September update of the MTFP. We have now fully refreshed our baseline assumptions of, demand, demography and inflation together with a revised view of income and funding. The impact on the MTFP is summarised in Table 7.

Table 7 - MTFP Update - Movements since September Cabinet

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**TOTAL £m**
MTFP – September 21	**(1.055)**	**9.142**	**0.003**	**1.185**	**9.275**
Changes:					
Unavoidable Pressures	2.358	1.176	0.866	0.055	4.455
Reductions / Income	(0.091)	0.465	0.540	(1.510)	(0.596)
Inflation Cost Pressures	2.315	1.012	0.961	0.934	5.222
Council Tax Base Increase	(1.104)	(0.045)	(0.023)	(0.023)	(1.195)
Council Tax Band D changes	0.967	(1.363)	(1.493)	(1.615)	(3.504)
Other Funding change	(0.690)	0.000	0.000	0.000	(0.690)
Council Tax Adjustment Account	0.000	(3.000)	3.000	0.000	0.000
Business Rates Reset Deferred	(5.400)	6.400	0.000	0.000	1.000

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Transfer to Business Rates Risk Reserve	2.537	(2.537)	0.000	0.000	0.000
Transfer to One-Off Pressures Reserve	2.863	(2.863)	0.000	0.000	0.000
Draft Budget	**2.700**	**8.386**	**3.854**	**(0.974)**	**13.967**
Net Estimated CSR funding	(2.700)	1.000	1.000	0.000	(0.700)
Revised Draft Budget	**(0.000)**	**9.386**	**4.854**	**(0.974)**	**13.267**

2.33 The deferral of the business rates reset until at least 2023/24 has not yet been confirmed but is very likely. If this does not happen we would have to review our use one-off funding for the Final Budget as the gain from the reset is being used to create two new reserves in 2022/23 as detailed in the above table.

Inflation

2.34 In determining the forecast draft Revenue Budget expenditure for 2022/23 the following forecasting assumptions have been made:

Table 8: Forecasting Assumptions 2022/23

	2022/23
General Pay Inflation*	2.0%
General Non-Pay Inflation**	0.0%
Fees and Charges	2.0%
Energy inflation	14% - 25%

* plus 1.75% pay award for 21/22 added to the base budget

**assumes must be contained within existing budgets

2.35 Exemptions to the 2.0% increase in fees and charges are listed in **Annex D**. The 2.0% corporate guidance is based on the July CPI. This affects a small number of services that don't charge on a cost recovery basis or set fees based on a statutory regime.

2.36 Contractual inflation is based on existing contract agreements. Some of the larger contracts are detailed in Table 9.

Table 9: Contractual Inflation Assumptions 2022/23

	2022/23
SERCO – Waste Collection - DTI Indices	7%
SERCO – Street Cleansing - DTI Indices	7%
SERCO – Food and Garden Waste - DTI Indices	7%
SERCO – Landscape - DTI Indices	5.25%
Ringway - highways works	15%
Ringway - street lighting works	15%
Excel Care	5.89%
Extracare	5.92%

2.37 Higher inflation forecasts have had a significant impact on the projected cost of contractual inflation as detailed in Table 10.

Table 10: Contractual Inflation - 2022/23

	February 2021 £m	Draft Budget £m	Increase £m	Increase %
Adult Services	2.285	2.591	0.305	13
- *National Living Wage*	*2.011*	*2.225*	*0.214*	*11*
- *Other*	*0.274*	*0.366*	*0.092*	*33*
Children's Services	0.500	0.840	0.339	68
Environment & Property	0.937	2.466	1.529	163
Other	0.094	0.075	(0.019)	(20)
TOTAL	**3.816**	**5.971**	**2.155**	**56**

2.38 The £2.155m pressure in 2022/23 is equivalent to a 1.5% rise in Council Tax. Over the medium term it is estimated that contractual inflation will rise to a budget pressure of £20.0m, an increase of 32% from February 2021, which is a significant risk to the Councils financial position. The decision to support residents by managing Council Tax increases at below inflation (CPI 4.2% October 2021) will mean that more difficult choices with future services will need to be made.

2.39 It has been assumed in the MTFP that the increase in National Living Wage of 6.6% for 2022/23 was an exceptional increase, with increases in 2023/24 and beyond falling in line with historical levels.

Cost Pressures

2.40 Cost pressures have been refreshed from February.

Demand Assumptions

Adult Social Care - demand pressures across all areas (Older People, Physical Disabilities, Mental Health and Learning Disability) have been updated to reflect current levels of demand and the average cost of current placements. In 2022/23 we anticipate this to cost an additional £3.7m compared to the 21/22 base budget and a further £6.1m across the remaining three years of the MTFP. It is anticipated that future growth will settle to pre-pandemic levels and therefore future years growth is in line with normal population estimates. Learning Disability services is an area that we have seen significantly increased growth due to the disruption Covid has brought to the service, including the reduced availability of day services; this accounts for almost half (£4.5m) of the total demand growth pressures (£9.8m) in ASC.

Homelessness - 2021/22 was the first year of a five year invest to save programme, intending to reduce the cost of temporary accommodation by addressing three main factors; to reduce the number of families in temporary accommodation (by focusing on prevention), to reduce the length of stay in TA and to reduce the average nightly rate payable to providers (improvements in commissioning and availability of move on accommodation). Achieving these targets within the plan will be key to managing cost pressures alongside our prevention offers. This includes debt advice from the Citizens Advice Bureau (CAB) and utilisation of the Depaul service for young people. Demand remains volatile and although we are currently reporting a small in-year overspend of £0.080m, we continue to see further increases in demand. This means that we are no longer able to provide all accommodation within the borough, but where we do have to place outside, this will be risk assessed and not applied to people with dependents or care and support needs, and will be within a reasonable distance of MK. There have also been some delays in recruiting to roles and as a result the projections on the invest to save business case have been reviewed and updated. The impact on 2022/23 is a small reduction in savings of £0.047m but an additional £1.4m of savings (compared to the February 2021 MTFP) across the MTFP (largely driven by the inclusion of year five of the business case, now this year is included in the latest MTFP).

Children's Placements - future demand has been projected for both in house and external placements. This is based on a review of current placements and forecasting a full year costs in 2022/23 whilst accounting for changes that may impact the placement such as age, or planned placement changes. In additional to current placements an estimate for new placements to March 2023 has been made. There is currently limited in house capacity which is resulting in external fostering placements being required which incur higher costs, however, there continues to be a focus on in-house recruitment and retention of foster carers. In 2022/23 we expect demand to be £0.264m.

Additionally, the service will be reviewing the adoption allowance rates that are currently paid to carers so that they are aligned with the foster care allowance (as per guidance) which will be an increased cost overall. This increase will be effective from 1st April 2022. In 2022/23 we expect demand to be £0.086m.

Furthermore, a pressure has been included in relation to the Regional Adoption Agency (RAA) partnership with Central Bedfordshire Council (CBC). As part of the RAA interagency fees are paid to external adoption agencies when a child is adopted by one of their adopters. The original agreement was that the interagency fees were split on a 50/50 share between both local authorities to allow the RAA to establish, however from 2022/23 this split is expected to move to an actual fee basis whereby each local authority will fund their own share of the costs. Since the implementation of the RAA MKC has placed more children than CBC due to demographic factors so will be expecting to pick up a larger share of the interagency fees. In 2022/23 we expect demand to be £0.053m.

Children's Social Work - the establishments in the social work staffing teams across the Children's & Families service have been reviewed and agreed with managers. As part of this, the cost of future social work progressions has been estimated and included as a pressure in the budget. Additional budget has been included for a Customer Liaison Officer in the Multi-Agency Safeguarding Hub to meet the current demand in the team which has been increasing year on year. Lastly due to the number of cases that remain unallocated in the Family Support Teams, a budget for an additional social worker has also been included in the pressure. In 2022/23 we expect demand to be £0.121m.

Home to School Transport - demand pressures have been calculated based on expected growth within special schools and mainstream schools in future years, and the cost of transporting eligible children to school. There has also been a demand increase from families requesting a family led travel budget which allows them the flexibility to use the funding to ensure that their child gets to school. In 2022/23 we expect demand to be £0.440m.

Direct Payments - the number of children who are receiving a direct payment to provide some additional support and respite to the families is increasing year on year, alongside the increases being seen with children having an Education, Health and Care Plan (EHCP). Growth and demand assumptions have been calculated based on the increase in children with an EHCP, and how many are likely to require support from the children with disabilities team and be eligible for a direct payment. In 2022/23 we expect demand to be £0.180m.

Waste - the pandemic and working from home had a significant impact on the level of residual waste tonnage. When the budget for 21/22 was set, the position seemed to be stabilising and a pressure was included based on those assumptions. However, in March 21 the tonnage levels rose again and have stayed at that level over this year. Therefore, an additional pressure of £0.536m has been included in 22/23.

The Materials Recycling Factory (MRF) has reached the end of its useful life and will require investment to meet the Council's waste disposal requirements. Market conditions have changed since the previous MRF operation contract was let in 2009 and estimated costs for the re-procurement of the service are estimated to be higher than current budget. An options appraisal has commenced looking at replacement, refurbishment and transition options for the facility that manage risk and balance opportunity such infrastructure provides. The associated costs will be revisited as part of the final budget.

In regard to the forward facing waste collection, cleansing and landscaping services the Council has been developing a comprehensive commissioning approach for these key Environmental Services contracts. This includes an alignment of key contract dates to optimise the opportunities in 2023 to deliver a more holistic approach to how Waste Management services are provided for local residents. This programme is well under way, tender documentation aims to be published in December 2021 with a decision to be made in the autumn of 2022.

In March 2021 a decision was made to introduce a wheeled bin service for households in Milton Keynes. This new service, to go live in 2023/24 will require additional vehicles, staffing, and expansion of existing depot facilities to accommodate these. These cost pressures, totalling £1.75m have been estimated within the 2023/24 budget proposals as a contractual change, but the final cost and solution will need be managed through competitive tendering and dialogue where all service provision options need to be considered to ensure the new contract is within the affordability envelope.

2.41 Pressures identified in the draft Budget 2022/23 are summarised below in Table 11 and detailed in **Annex A**.

Table 11: Budget Pressures 2022/23 - 2025/26

Budget Pressures by Category	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Demography	5.400	4.151	2.855	2.775
Demand - New	1.330	0.307	0.000	0.000
Policy Choice	0.050	0.000	0.000	0.000
Contractual Change	0.271	1.750	0.000	0.000
Total Ongoing Service Pressures	**7.051**	**6.208**	**2.855**	**2.775**

2.42 On-going budget pressures of £7.1m in 2022/23 will be funded from on-going resources, together with £4.4m one-off COVID-19 grants.

Income and Reductions

Income Recovery

2.43 As part of the September MTFP refresh we made a series of prudent assumptions around income. We removed £9.5m of income budgets in 2021/22 and reinstated £1.5m in 2022/23, leaving an income pressure of £8m. This has been reviewed further and we have been able to increase income budgets by an additional £1.7m as detailed in Table 12. This still leaves an income pressure of £6.3m. We have assumed that there will be no further improvement in income levels over the medium term.

Table 12 - Income Budgets

	2020/21 Budget £m	**2021/22 Pressure £m**	**2021/22 Budget £m**	**2022/23 Recovery £m**	**2022/23 Budget £m**
Car Parking	(13.835)	8.461	(5.374)	(2.626)	(8.000)
Planning	(2.498)	0.674	(1.824)	(0.656)	(2.480)
Other	(1.141)	0.349	(1.171)	0.087	(0.705)
Total	**(17.474)**	**9.484**	**(8.369)**	**(3.195)**	**(11.185)**

Reductions

2.44 Reductions and income growth of £5.3m have been included in the 2022/23 draft budget and £9.7m over the MTFP. These are detailed in **Annex B** and summarised below.

Table 13 - Reductions and Income Growth

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Being Smarter	(0.220)	(0.560)	0.000	0.000
Working Together	(1.131)	0.000	0.000	0.000
Thinking Differently	(3.905)	(1.319)	(1.065)	(1.510)
TOTAL	**(5.256)**	**(1.879)**	**(1.065)**	**(1.510)**

2.45 COVID-19 has and continues to materially impact the Councils delivery of services and cause significant turbulence to our financial position. The budget for 2021/22 and proposed draft budget for 2022/23 have been based on providing as stable a base as possible to ensure that we can continue key front line services, whilst restricting the impact of Council Tax increases for local residents. If the financial settlement in December is broadly in line with our expectations, then the Council will need to make some difficult choices from 2023/24 onwards to ensure that we continue to remain financially secure. We have also used £3.0m (one off) from the Collection Fund to effectively rephase savings from 2023/24 to 2024/25.

One-off Pressures

2.46 In addition, a further £3.0m of one-off expenditure has been identified in 2022/23 (**Annex C**). The funding for one-off expenditure is detailed in Table 14.

Table 14: Funding for One-Off Expenditure 2022/23 - 2025/26

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Events Reserve	50	0	50	0
New Homes Bonus	421	0	0	0
Corporate Property Reserve	50	0	0	0
COVID-19 Support Grant	218	237	31	0
Strategic Public Health Reserve	451	581	391	0
Political Priorities Reserve	150	0	0	0
One Off Pressures Funding Reserve*	1,686	827	350	0
Total One-off Funding	**3,026**	**1,645**	**822**	**0**

*the funding for these new pressures would be met from the expected deferred reset to business rates in 22/23. This has not yet been officially confirmed but is expected to be announced in December as part of the LGFS.

Summary of Forecast Financial Position

2.47 The draft budget sets out the Councils financial plans for 2022/23 and how these are funded. This includes a prudent estimate of what we believe the Council will receive through the LGFS. In balancing the 2022/23 budget, the Council will not use unearmarked reserves. The draft budget does include the planned use of earmarked reserves for non-recurrent expenditure, which is summarised in Table 15 below.

Table 15: Planned Use of Reserves

Reserve	Balance 1/4/21 £m	Forecast 31/3/22 £m	Forecast 31/3/23 £m	Forecast 31/3/24 £m	Forecast 31/3/25 £m
GF Working Balance*	(30.412)	(28.203)	(28.203)	(28.203)	(28.203)
Earmarked Reserves – non distributable	(147.382)	(111.616)	(67.656)	(61.109)	(59.017)
Earmarked reserves - distributable	(16.065)	(5.440)	(0.227)	(0.068)	(0.041)
Total GF Reserves	**(193.860)**	**(145.259)**	**(96.086)**	**(89.380)**	**(87.261)**
HRA Reserves	(83.066)	(52.578)	(35.127)	(21.512)	(21.730)
Total Reserves	**(276.926)**	**(197.837)**	**(131.213)**	**(110.892)**	**(108.992)**

**The reduction to the GF Working Balance in 2021/22 was planned to support the delivery of the Council Plan.*

2.48 Table 15 shows the distributable General fund reserves reducing from £16.065m in 2021/22 to £0.041m in 2024/25 as funding is drawn to finance projects approved from previous budget decisions. Total General Fund reserves will reduce from £193.860m in 2021/22 to £87.261m in the same period, this includes the use of funding set aside for the approved capital programme, use of 3rd party funding and use of Government grant funding allocated to off business rate reductions due to COVID-19.

2.49 Over the Medium Term the Council has a projected budget gap of £13.267m, with £9.386m falling in 2023/24. The gap in 2023/24 reflects the reversal of one-off Covid 19 funding together with the cessation of New Homes Bonus grant and the deferral of the business rates reset. Should the business rates reset be deferred for longer or is a partial reset then the deficit may reduce. This is likely to remain unknown until very close to the setting of the 2023/24 budget.

2.50 Table 16 summarises the four year MTFP. The Medium Term Financial Strategy will be included with the Final Budget report in February 2022 together with a full sensitivity analysis of our budget assumptions. Our budget approach is summarised in paragraph 2.6.

Table 16: Medium Term Financial Forecast

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Government Funding Adjustments	(0.684)	3.381	0.989	(2.120)	1.566
Other Funding Sources	(8.473)	(7.350)	(7.345)	(7.079)	(30.247)
Pay, Contract & Other Inflation	9.539	6.761	6.902	6.945	30.147
Budget Service Pressures	7.066	6.223	2.870	2.790	18.949
Budget Delivery	(8.289)	5.374	0.000	0.000	(2.915)
Corporate Measures	10.047	(9.024)	1.000	0.000	2.023
Capital Financing Costs	1.188	(0.473)	0.503	0.000	1.218
One-off Pressures	3.026	1.645	0.822	0.000	5.493
Total Pressures	**13.420**	**6.536**	**5.741**	**0.536**	**26.234**
Budget Reductions & Income Proposals	(5.256)	(1.879)	(1.065)	(1.510)	(9.710)
Less Earmarked Reserves applied to one-off pressures	(3.026)	(1.645)	(0.822)	0.000	(5.493)
Budget Gap	**5.138**	**3.012**	**3.854**	**(0.974)**	**11.031**
Planned drawdown from Earmarked Reserves	(2.438)	5.374	0.000	0.000	2.936
Net Ongoing Position	**2.700**	**8.386**	**3.854**	**(0.974)**	**13.967**
Estimated CSR Funding*	(2.700)	1.000	1.000	0.000	(0.700)
Revised Position	**(0.000)**	**9.386**	**4.854**	**(0.974)**	**13.267**

*Will be confirmed as part of LGFS

Debt Financing

2.51 The council's debt financing budget manages both the requirement for external debt and associated repayment of loans and the investment of council resources. Several items have been included with the 2022/23 budget proposals to reflect changes to external interest rates and internal accounting requirements.

2.52 These changes are: a reversal of one year only savings on Minimum Revenue Provision (as agreed in 2021/22 budget), anticipated improvement in interest rates which will result in increased investment income, and savings on borrowing due to the introduction of a two pooled loan arrangement with the HRA and need for the HRA to finance debt (these values are subject to funding requirements in the HRA business plan). These assumptions will be revisited as part of the final budget report.

2.53 The Council's Treasury Management Strategy will be presented to Cabinet as part of the Final Budget Proposals in February 2022.

Parking Account

2.54 The Council 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.

2.55 As in previous years, the Council has estimated the likely income it will receive from car parking in 2022/23, the costs that are required to manage car parking, and has considered the need for additional car parking.

2.56 Parking income during 2021/22 has seen some recovery against the amounts received in 2020/21 but it is still not forecast to recover to pre-pandemic levels, meaning that many services previously funded by parking income will need to continue to be funded from other sources. The forecast on-street parking surplus will to be transferred to the General Fund for use (subject to the level of surplus) 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; and
- environment improvements.

2.57 **Annex G** outlines the forecast parking surplus and the proposed use of this surplus as part of the draft Budget 2022/23. This is significantly lower than in previous years due to the impact of COVID-19 on demand.

Dedicated Schools Grant

2.58 The Dedicated Schools Grant (DSG) is a ring-fenced grant supporting individual schools, academies and other pupil related expenditure as defined in the School and Early Years Finance (England) Regulations 2021. The grant and expenditure is monitored closely by the Schools Forum (a committee of the Council).

2.59 Due to the extremely short national timescales required to make decisions around schools funding, this report requests for delegated authority to be given to the Director of Children's Services (in consultation with the Cabinet Member for Children and Families and the Director of Finance and Resources) for changes to and sign off of the 2022/23 final arrangements in respect of the school funding formula, the funding arrangements for pupils with high needs and the early years single funding formulae.

2.60 This is required because the national timescales (set by Department for Education) do not align with the Council's budget setting timescales and because there are a number of budget areas where the Schools forum has a decision making role that it will exercise at their meeting on 13 January 2022. The deadline for submitting the final schools budget authority proforma tool (APT) to the Education and Skills Funding Agency (ESFA) is the 21 January 2022 which is before the formal ratification of the Council's budget takes place.

2.61 Final funding allocations for the Schools, Central Services and High Needs blocks will not be received until late December as these will be updated reflecting the latest October pupil census data. A number of other proposed changes by the DfE are currently only estimated and will not be confirmed until the final allocation is received. It is expected that there will be a pressure on the growth fund and a consultation with all schools has taken place during November on options to manage this shortfall.

2.62 The Early Years block is based on a national funding formula and whilst the final allocations for 2022/23 will not be confirmed until July 2023 due to census data there have been announcements regarding the increases in funding rates. The rate per hour for 2 year olds will increase by £0.21 to £6.09 per hour and for 3 and 4 years there will be an increase of £0.17 to £5.55 per hour. Supplementary funding to maintained nursery schools will increase by 3.5% to reflect inflation costs. Disability access funding will increase by £185 to £800 per eligible child per year and the early years pupil premium will increase by £342 per eligible child.

2.63 The 2022/23 draft DSG budget can be found within the Schools Forum reports in the following link Schools' Forum meeting 09/12/2021.

Housing Revenue Account

2.64 The Housing Revenue Account (HRA) is a ring-fenced account, which is used for income and expenditure relating to the provision of housing by the council to tenants and leaseholders. It is funded by rents rather than from Council Tax.

2.65 There was a major change to the financing of the HRA from April 2012, due to the implementation of the "Self-Financing" regime. This change meant the Council took on £170m of debt in exchange for no longer paying negative Housing Subsidy. Income and expenditure of the HRA is now based largely on local rather than national decisions, and reflects investment informed by the HRA Business Plan and Asset Management Plan.

2.66 A further major change was announced in the October 2018 budget, when the "Debt Cap" which had limited councils' ability to borrow to invest in housing was abolished. Councils are now able to borrow for housing purposes under the same "Prudential Code" regime as applies to borrowing for non-housing purposes and as a result, a local set of prudential indicators (including a local debt cap), specific to the HRA were approved when the 2021/22 budget was set in February 2021.

2.67 The HRA budget is updated in two stages. The first stage, for the draft budget, includes all technical budget amendments (changes in core assumptions such as inflation and the impact this will have on contractual costs and rent income setting), all pre-agreed pressures and savings (i.e., those agreed as part of the 2021/22 budget and have future years implications) and non-choice budget pressures, such as those relating to contractual or legislative pressures. It will also include the latest approved capital programme, as of November 2021. These adjustments form the draft HRA budget reported.

2.68 The final HRA budget in February 2022 will include an update of the latest capital programme considering any changes to the Asset Management, New Build and Regeneration programmes, which are currently being reviewed in light of slippage to the existing programmes, and as part of internal governance processes to assess value for money for new schemes. Any choice revenue pressures will also be considered as part of the final budget, in order to assess prioritisation and the overall position of the HRA Business Plan. The final HRA budget in February will therefore also include the latest borrowing debt cap and the available headroom within this.

2.69 Table 17 shows the summary draft 2022/23 budget for the HRA, which is compared to the 2021/22 Budget in **Annex H**.

Table 17: Summary of the HRA Budget

Item	2022/23 £m
Income:	
Dwelling rents	(56.653)
Other income	(2.558)
Total income	(59.211)
Expenditure:	
Repairs and maintenance	11.267
General Management & Special Services	15.258
Interest and repayment of borrowing	11.639
Funding for future capital repairs (depreciation charge)	13.995
Funding for future capital improvement works (RCCO)	6.138
Contribution to provision for repayment of debt	0.847
Revenue Contribution to Balances	0.067
Total Expenditure	59.211
Net budget for the year	**-**

2.70 The minimum level of prudent HRA reserve to cover unforeseen adverse circumstances has been assessed at £7.326m as in **Annex H**, an increase of £0.067m since last year which is to reflect the increasing cost base (and therefore risk) in the HRA because of inflation.

Capital

2.71 Table 18 summarises the Council's capital resources and expenditure needs. The detailed Capital Programme is available at **Annex I** .

2.72 A number of service critical projects have been put forward for inclusion within the 22/23 Capital Programme. These projects are currently reliant on future capital receipts and a prudent assumption of government grant. Capital receipts, whilst forecast using latest data, are reliant on completion of land sales, and therefore are not certain. The decision to release funding will be made by the s151 Officer once confirmation of available funding has been confirmed, in the event of delays or lower levels of receipts the addition of new projects may require future scrutiny.

2.73 Whilst Table 18 shows an excess of resources over planned expenditure, all £23.8m of this funding is either Education or Integrated Transport specific, meaning there is no unallocated funding to fund any new Capital projects within the current Programme. Projects within the existing programme have been reviewed and where necessary expenditure profiles revised. Other new projects have only been added where new ring-fenced funding has been identified.

2.74 No changes have been made to the HRA capital programme for the draft budget. The HRA business plan is currently being refreshed and any amendments to the existing programme will be included within the business plan and brought as part of the final budget proposals in February 2022. This is to ensure that all financial implications of financing the programme have been built into the longer term financial plan.

2.75 There are a number of areas which are not currently included within the capital programme and will require funding in the future, therefore increasing the overall funding shortfall. A pipeline programme has been developed, these still either need to be worked up further or require funding before they can be considered for inclusion in the main programme.

2.76 The Capital Strategy sets out the approach that the Council takes in prioritising its Capital Investment Programme including financing and the way that this activity is managed across the organisation. The expected increase to the financial pressures over the medium term on the revenue budget will mean that a key priority will be focused around schemes that deliver financial returns or reduce existing asset lifecycle costs. The Capital Strategy is currently being reviewed and will be presented to Cabinet in February 2022.

Table 18: Forecast Medium Term Summary of Capital Resources and Expenditure

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Capital Resources	230.838	143.046	30.847	28.574	14.233
Capital Expenditure	207.637	145.902	29.758	27.482	12.960
Net Position (surplus) / deficit	(23.201)	2.856	(1.089)	(1.092)	(1.273)
Cumulative Position (surplus) / deficit	**(23.201)**	**(20.345)**	**(21.434)**	**(22.526)**	**(23.799)**

Capital Funding

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

S106 Funding

2.78 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.

2.79 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.

2.80 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 and infrastructure as intended.

2.81 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.

2.82 A total of £0.458m new S106 funding has been allocated within the Capital Programme.

Tariff

2.83 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.

2.84 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.

2.85 **Annex J** shows a breakdown of the Tariff resource allocation for 2022/23 and indicative allocation for the next four years, both for projects to be delivered by the Council and those managed by our partner organisations. The allocation of tariff resources was agreed in the original Tariff Delivery Plan. Changes to the timing of delivery of these projects have been made to reflect actual housing delivery and infrastructure requirements.

2.86 Tariff resource allocation includes both amounts to be financed through cash and others to be completed by works in kind. Tariff allocations to the Council's projects totalling £8.853m are included within the Capital Programme. New requests for use of tariff funding will be sought on a project by project basis in line with the agreed process for entry into the Capital Programme.

Risks

2.87 A key part of the draft budget is the review of key financial risks. We have reassessed the budgetary risks and where possible looked to mitigate these. It should be noted however that most of the significant risks are not within the direct control the Council and it is therefore critical in setting a robust and legal budget that we make sufficient provision within service budgets using available evidence to manage reasonable variations. The base budget for 2022/23 has been rebased as per the targeted budget approach set out in the September Cabinet report.

2.88 Our full budget risk assessment is set out at **Annex M**. The key external risks are summarised below:

COVID-19 - this created the biggest uncertainty for all organisations in planning, managing and responding to the pandemic. The draft budget has been developed to reflect the recovery as far as is possible but there is a significant risk with assumptions relating to changed behaviours and longer term economic impacts. We have not anticipated any further government support in 2022/23 in line with DLUHC advice.

Inflationary Pressures - a combination of significant factors have led to a sharp and sustained increase to inflationary pressures in the middle to latter half of 2021. This has had a significant impact on the 2022/23 budget and will as we move into 2022 pose a significant risk for the Council on our whole cost base (contracts, energy and staffing). It is not yet clear whether this will be transitionary and start to subside in the latter half of 2022 or will continue. The draft budget has factored in higher inflation in 2022/23 only and then assumed inflation falls back to previous levels thereafter.

Commissioning Risks - the Council is engaged in a number of significant procurements on major services. The current economic volatility and supply side issues poses a greater level of risk on the outcome and cost of future service provision. To help manage this risk we will need to review and potentially adjust our approach as we go through this activity to contain cost escalation. This may require changes to future service provision and or revisions to the risk profile on some of our major contracts.

Contract Sustainability - the Council hold a number of significant service contracts which deliver key services to residents. Whilst the nature and complexity of these contracts vary, there are contingent risks within these that in the event of contract viability / contractor failure would impact materially on the Council's Medium Term Financial Plan.

Wider Government Funding - the three year CSR has given some indications on medium term local government funding. However, major reforms were expected prior to COVID-19 which would have provided greater long term certainty and a reset of local government funding distribution. A key part of this was an increasing reliance on the use of Business Rates income to fund local services. There is still no timeframe in place for this and in light of recent events attitudes towards the use of business rates as an increasing element of local government funding have changed. It is also uncertain as to whether the LGFS will provide a 3 year settlement for local government or whether this will be for 1 year only.

Social Care funding - social care reforms have been announced as part of the Autumn Budget, but there remains uncertainty about how this will work and whether the grant funding provided will be sufficient to cover the costs of the reforms on Local Authorities, which include the additional NI levy, caps and means testing on client contributions and the removal of differential rates for private and local authority clients for care home placements. In the short-term, Councils with responsibility for Social Care will continue to rely on a complex mix of different funding streams to support these services including the Better Care Fund, Improved Better Care Fund and Public Health Grant. For 2022/23, these funding streams will continue but the long term future of all of these funding streams in unclear.

Rising Demand on key front line services across Adults and Children's Social Care and Homelessness - the Council is continuing to experience rising demand, both in terms of volume and complexity, across Adults and Children's Social Care. This is driven by a combination of factors including demographics, rising population, family resilience and breakdown and pressures on other public services. This has been exacerbated by COVID-19. The draft Budget reflects our current view on expected levels of demand for these services, but these are both volatile and difficult by nature to forecast.

Reserves

General Reserves

2.89 The Finance team have reviewed the level of reserves, which is included in **Annex K**. This review shows the level of risk exposure for the Council on known issues and an assessment of the adequacy of the level of General Fund Balances.

The draft risk assessment carried out alongside the development of this draft Budget, shows that the minimum prudent level of General Fund reserves is £27.7m. This will be reviewed again as part of the Final Budget report to reflect any material changes to the Councils risk profile.

2.90 The Council has had to manage significant service and financial challenges over the past 2 years in response to COVID-19. This has left permanent scarring on the budget for which no continuing government support is being provided. Wider economic impacts have also started to impact, particularly inflationary pressures, which have not been fully reflected in the latest government settlement. In achieving a balanced budget for 2022/23 we have used a range of corporate interventions and removed base budget contingency. This will mean that future budget volatility if not robustly managed will impact more immediately our future level of unearmarked reserves. The current GF working balance is above the recommended minimum threshold providing a level of one-off cover for unexpected costs. **No planned use of this reserve will therefore be proposed.**

Earmarked Reserves

2.91 In addition to the General Fund and HRA working balances, the Council maintains a number of earmarked reserves to enable it to meet a range of different policy objectives as follows:

- to manage known financial risks;
- to enable the Council to invest in services to generate future savings as part of its budget strategy;
- to manage one-off expenditure which has allowed the Council to make on-going revenue savings;
- to build up funding to support delivery of large projects such as capital programme schemes;
- to manage known timing differences between the receipt of funding and the profile of expenditure; and
- to hold ring fenced balances for example, specific grants, trusts, school balances etc.

2.92 The earmarked reserves are listed in **Annex L**. They have been reviewed to ensure that they remain relevant, have clear objective(s) and where appropriate an expiry date has been shown as to when the funds should be fully utilised.

Robustness and Risks

2.93 Section 25 (1) of the Local Government Act 2003 requires that 'the Chief Finance Officer of the authority must report to it on the following matters –

i. the robustness of the estimates made for the purposes of the calculations, and

ii. the adequacy of the proposed financial reserves.'

2.94 Section 25 (2) requires that an authority shall have regard to the report when making decisions about the calculations in connection with which it is made (i.e. setting its budget). This element of the draft Budget report and associated annexes outlines the assessment of the adequacy of reserves and robustness of the draft Budget.

2.95 In preparing the Budget for 2022/23, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report. Where the impact is not known this has been highlighted as a risk.

2.96 The draft Budget adequately reflects known issues including the best forecast position at this point in time. The demand pressures and other issues will continue to be reviewed before the Budget is finalised in February and reviewed if necessary.

2.97 **The Council remains under significant and increasing financial pressure and in determining the budget for 2022/23 the Council has avoided needing to make any further significant cuts or reductions to services, whilst containing the Council Tax increase below inflation. The MTFP identifies significant gaps from 2023/24 onwards and consequently difficult decisions will need to be made to ensure that the Council continues to remain financially secure. Given the size of the projected budget gap in 2023/24 and risks around the budget, the Council will need to ensure it has very tight control over spending in year and progresses with plans to make material reductions to its cost base.**

2.98 A Budget Risk Register is included in **Annex M**, which sets out the potential risks and issues and an assessment of the adequacy of the Council's level of reserves is set out in **Annex K**.

2.99 The General Fund Balance of £27.7m is estimated to be adequate to meet the Council's financial needs in 2022/23.

2.100 This view takes account of the reserves included in the Council's accounts (subject to audit) as at 31 March 2021; 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 2022/23.

Table 19: Section 151 Officers Assessment on the Adequacy of Reserves

Reserve	Balance at 31/3/2022 £m	Forecast Balance at 31/3/2023 £m
GF Working Balance	(28.203)	(28.203)
% Net Revenue Budget	13.36%	12.74%
Specific Risk Reserves*	(30.255)	(18.190)
Total Reserves Available to meet known and unknown budget risks *	**(58.458)**	**(46.393)**
% Net Revenue Budget	**27.70%**	**20.96%**

See **Annex L which sets out details of these reserves held to manage specific known budgetary risks.*

*** This excludes schools budgets (DSG) and the HRA for which a separate reserve is held. It should however be noted that the Council continues to underwrite certain financial risks around schools funding, a provision for which is included within the risk assessment.*

3. Implications of the Decision

Financial	Yes	Human rights, equalities, diversity	Yes
Legal	Yes	Policies or Council Plan	Yes
Communication	Yes	Procurement	Yes
Energy Efficiency	Yes	Workforce	Yes

(a) Financial Implications

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

(b) Legal Implications

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.

They affect every household and service user and the manner in which decisions must be made is closely prescribed by law. **Annex N** of this report sets out the relevant legal considerations which affect the Council Budget and Council Tax decisions

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

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 Director of Finance and Resources, to report to the Council on the robustness of the budget and the adequacy of reserves.

Councillors are advised that due regard has been given to the requirements of the Local Government Act 2003 during the current budget process. Specific reference is made to the adequacy of General Fund reserves, and to the robustness of the budget proposals in paragraphs 2.93 to 2.100.

The Budget has again been developed at a detailed level based on information supplied by Directors and has been subject to scrutiny by the Corporate Leadership Team. Budget and Resources Scrutiny

Committee have scrutinised the budget process and will be reviewing the specific budget proposals prior to Cabinet considering the final budget proposals in February 2022.

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.

(c) Other Implications

There are 76 pressures, reductions and income proposals of which 64 were considered as being 'significant' of which 3 are 'relevant' to equality. Four in-depth assessments will be conducted. Full details will be published in January.

These assessments are likely to recommend:

- In one (1) green areas proposal (Children's Social Care Placements Pressure) should continue, as there is a potential to improve the advancement equality of opportunity.
- In one (2) green-amber areas, adjustments have been/are made to remove barriers or better promote equality.
    - a) The staging of the Women's Euros in Milton Keynes should be used to promote gender equality.
    - b) The Health Inequalities Improvement Plan needs to get behind differential health outcomes related to gender, ethnicity and child poverty
- There are no (0) amber areas, where proposal should continue despite having identified some potential for an adverse impact or a possible missed opportunity to promote equality.
- There are no (0) red areas, where it is recommended that proposals not continue as there is a potential for unlawful discrimination or continue with adjustments .

The majority of significant pressures are related to demographic changes. The 2022/23 budget continues a focus on meeting the needs of the most vulnerable. The budget was also considered for its effect on child poverty and an initial assessment suggests that often it is in the detail of budgets that progress can be achieved. However, it is possible that opportunities have been missed to increase access to affordable childcare and extend the use of Family Centres.

4. Timetable for Implementation

4.1 13 December 2021 - 31 January 2022 - Budget Consultation

4.2 1 February 2022 - Final Budget and Capital Programme report to Cabinet

4.3 16 February 2022 - Final Budget and Capital Programme report to Council

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List of Annexes

2022/23 Budget Pressures	Annex A
2022/23 Budget Reductions and Income Proposals	Annex B
2022/23 One-off Budget Pressures	Annex C
Fees and Charges: Exemptions to the Income Policy Additional Concessions	Annex D
2022/23 - 2025/26 Forecasting Model	Annex E
2022/23 GF Draft Budget Summary	Annex F
2022/23 Draft Parking Account	Annex G
HRA Budget	Annex H
Draft Medium Term Capital Programme	Annex I
Draft Tariff Resource Allocation	Annex J
GF Reserves Assessment	Annex K
Earmarked Reserves	Annex L
2022/23 Draft Budget Risk Register	Annex M
Legal Framework	Annex N

List of Background Papers

None