ANNEX K

CAPITAL STRATEGY 2019/20

1. INTRODUCTION

1.1. This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

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

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

2. MILTON KEYNES CAPITAL INVESTMENT CONTEXT

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

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

2.3. Government policy recognises Milton Keynes as an area of high housing demand. Centrally located, in the **Cambridge – Milton Keynes – Oxford growth corridor;** it is one of the fastest growing areas in the country. While growth rates in general have slowed across the country, Milton Keynes has overtaken Cambridge as the fastest-growing UK city. This has been accompanied by Milton Keynes' population growth rate exceeding the average for England.

2.4. The **MK Futures 2050 Commission** was set up in September 2015 as a way of thinking about the future of the city, helping to create a long term vision for the way MK should grow and prosper over the coming decades. The 2050 Commission Report "Making a Great City Greater" sets out a long term vision for the Borough to 2050 and identifies six big projects:

- Project One: Hub of the Cambridge–Milton Keynes–Oxford arc. Realise the arc's full economic potential as a single knowledge-intensive cluster as envisaged by HM Treasury.
- Project Two: MK:IT. Provide lifelong learning opportunities at a new university to promote research, teaching and practice which provide realistic solutions to the problems facing fast-growing cities everywhere.

- Project Three: Learning 2050. Ensure that the city provides, and is known for providing, world-class education for all its young people; and the Milton Keynes Promise.
- Project Four: Smart, Shared, Sustainable Mobility. Everyone who lives, works, studies or does business in the city is able to move freely and on-demand by harnessing the flexibility of the city's grid roads and redways.
- Project Five: Renaissance: CMK. (Re)create an even stronger city centre fit for the 21st century.
- Project Six: Milton Keynes: The Creative and Cultured City. Harness the energy and motivation of the city's most important asset – its people.

2.5. The **Council Plan** supports the aspiration that MK should grow to a population of 500,000 and beyond by 2050, supporting the growth of housing within the Borough securing the future of Milton Keynes by continuing to support Plan:MK. The Council Plan prioritises new infrastructure to support growth including investment in the development of a new university, and city centre college campus, regeneration, growth in school places, development of plans for a mass transport system in Milton Keynes and commitment to continue to develop the Strategy for 2050, responding ambitiously to the National Infrastructure Commission East-West corridor report.

2.6. **Plan:MK** is the new Local Plan for Milton Keynes, setting out a development strategy for Milton Keynes with approx. 31,000 new dwellings up to 2031. The plan has a range of detailed policies to guide development over this period, replacing the Core Strategy, adopted in 2013 and the existing Local Plan (2005) which currently together form the part of development plan for the Borough. The plan considers and provides the strategy for strategic development and spatial planning, with appropriate referencing and policies relating to the delivery of necessary infrastructure.

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

2.8. In response to the growing population, the demand for **new school places** is constantly managed. Between 2014/15 and the end of the 2016/17 academic year the mainstream primary cohort grew by 7.5%, (1842 children) and the secondary cohort by 3.3% (487 children). As a result of this, Milton Keynes Council had one of the largest school places programmes in the country. Since 2014 we have added 20 Forms of Entry (FE) into the Primary sector and 14 FE into the Secondary sector.

Current indications are that a further 8,610 school places will be required by 2025. This is likely to require a further 9 new primary schools and 3 secondary schools, together with a significant number of expansions to existing schools.

2.9. The Council has developed a **Local Investment Plan (LIP)** which outlines the investment requirements and funding mechanisms to support the delivery of growth and sets out the vision and aspirations for the Milton Keynes area as it continues to grow, bringing together the consequences of existing policies and strategies, including the council's Corporate Plan, Core Strategy, and other key strategies, to ensure that these policies are implemented effectively. This document, last refreshed in March 2015, currently assumes growth of 1,750 homes a year until 2026 which is lower than that highlighted in the Futures 2050 report and will be refreshed once Plan:MK has been formally adopted.

2.10. The Local Investment Plan seeks to identify known funding gaps that must be addressed if the identified infrastructure, and more significantly, the identified critical infrastructure, is to be successfully delivered alongside the planned growth in the Borough. The LIP identifies a requirement to fund around £1,064m of infrastructure to deliver the planned growth of Milton Keynes to 2031, with a £72m funding shortfall for critical infrastructure and around £145m shortfall for necessary infrastructure. This investment includes both that to be delivered by Milton Keynes Council and, where information is available, other public sector organisations within Milton Keynes, eg Health, Police, Higher Education and the private sector. The investment plan does not formally determine where resources are prioritised or allocated but it is an important aid to decision-makers in making these judgements, informing the Council's capital programme and long term investment plan.

2.11. Other than responding to growth, **Regeneration** is a key area for Council capital investment. Milton Keynes Council owns around 11,500 properties spread over 70 locations, with approximately 25% situated in 7 areas. Many of the properties in these areas are of non- traditional construction and in need of substantial investment. This investment in housing stock sits within the Housing Revenue Account (HRA) and regeneration across Milton Keynes will form a significant proportion of the Council's Capital Programme in the future.

3. CAPITAL EXPENDITURE DEFINITION & ACCOUNTING POLICY

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

- For details of the Council's policy on capitalisation, see: 2017/18 Statement of Accounts, section 20 Page 36

3.2. For 2018/19 the de minimis level for capitalisation has increased to £20,000 unless specifically agreed differently by the Corporate Director Resources.

4. CORPORATE GOVERNANCE OF PROJECTS

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

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

4.3. The governance structure consists of a four tier hierarchy with devolved responsibility to the lower Programme levels in terms of recommending projects for prioritisation and allocation of capital resources. Portfolio Boards established for each directorate – Place, Resources & People, are responsible for decision making, challenge and confirming strategic fit of projects & programmes.

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

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

5. PROJECT MANAGEMENT METHODOLOGY

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

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

6. SUBMISSIONS TO THE CAPITAL PROGRAMME

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

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

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

6.4. All Portfolio Boards submit ranked proposals to the Corporate Portfolio Board which appraises all bids based on a comparison of service priorities and strategic alignment prior to making recommendations for inclusion within the capital programme. The final capital programme is then presented to Cabinet and Council in February each year.

- For full details of the Council's capital programme, see: Annex L Draft Budget Report 2019-20 and Medium Term Financial Strategy 2019-20 to 2022-23.

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

7. MONITORING OF THE PROGRAMME

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

7.2. These are categorised as follows:

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

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

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

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

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

8. CAPITAL EXPENDITURE

8.1. In 2019/20, the Council is planning capital expenditure of £107.403m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2017/18 actual £m	**2018/19 forecast £m**	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**
General Fund services	198.013	121.187	60.124	28.200	18.445
Council housing (HRA)	22.330	41.242	47.279	33.259	33.115
Capital investments	0.000	0.000	0.000	0.000	0.000
TOTAL	**220.343**	**162.429**	**107.403**	**61.459**	**51.559**

8.2. The main General Fund capital projects include construction of a new secondary school £20m, school expansions £8.175m, investment in highway improvements £4.4m, new health facilities £4.3m and new leisure facilities of £2.3m. The Council does not plan to undertake any investment activity that would be classed as capital expenditure.

8.3. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of 139 new homes over the forecast period, and investment in planned maintenance £31.595m.

9. ASSET MANAGEMENT

9.1. To ensure that capital assets continue to be of long-term use, the Council is developing a Property asset management strategy. A draft Asset Management Plan is currently in place which steers the Council's approach to investment but this is not data driven or strategic, for example considering utilisation, costs, service transformation etc. The Council will be drafting a Corporate Property Strategy which will give strategic oversight and direction to a capital strategy linked to financial systems and data via Techforge, a new capital asset facilities management and property system, which is being rolled out in early 2019.

9.2. At present there is a rolling capital sum of £0.5m per annum for property capital maintenance, where schemes are identified based on experience and knowledge. The same approach will be adopted for 2019/20 with specific capital bids for special cases.

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

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

9.5. In 2011 it was estimated that there was a backlog in maintenance of £8m for highways, £48m for streetlights, and £31m for bridges. In response to this in 2012, the Council agreed to use prudential borrowing for increased planned maintenance on the basis that increased short-term investment would reduce the maintenance backlog and allow the Council to bring the network to a steady state condition, thereby saving money in the long-term. This investment has enabled the Council to carry out more preventative maintenance and to start to move towards a more sustainable asset management approach. To date a total of £38.2m has been spent on this programme with a further £8.9m approved in 2018/19. A further £11.8m is planned over the next 5 years.

9.6. The HRA Business Plan (HRA BP) is currently being developed. This is a document setting out how the council proposes to manage its housing stock to deliver the objectives set out within the Council Plan and Housing Strategy. It is supported by a Housing Revenue Account Business Plan Model (HRA BPM) setting out the financial implications of delivering the HRA BP and providing assurance that the HRA will remain financially viable. The HRA BPM is a key part of the council's long term financial planning, and will set out how we will deliver and finance services to tenants, and investment in their homes, over a 30-year period.

9.7. The key messages emerging from the initial analysis are:

- There is a backlog of repairs as at 1 April 2018 in the region of £75m.
- 23% of the Council's housing stock is classed as non-decent. The English House Survey 2016/17, published by the Ministry of Housing, Communities and Local Government in January 2018, states the average level of non-decency in social housing in England is 13%
- The current investment programme allows for little to no improvement in the condition of the public realm on council estates and there is no specific allowance within the HRA to fund the regeneration of the Council's priority estates
- A full 30-year investment programme maintaining the stock at a "decent" level (i.e. which maintains the structure and ability to let tenants' homes) and delivering some new council housing can be provided within the available resources; a consultation is currently

being undertaken which will inform the allocation of resources over these and other priorities.

9.8. Further work will be done on the HRA BPM to incorporate the outcome of the proposed consultation with tenants on their expectations and priorities, in order to be able to set out comprehensive and affordable long term investment programmes within a viable HRA. For 2019/20 the capital programme includes a 5 year programme of investment in the HRA stock.

9.9. The abolition of the HRA Debt Cap on 29th October 2018 represents a step change in the council's ability to resource its aspirations for new council housing, major repairs and improvements to the existing housing stock and regeneration. The opportunities now available, and how they can be managed to minimise risk and maximise value for money, are currently being explored.

10. CAPITAL FINANCING

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

Table 2: Financing of the Capital Programme

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
External sources	45.194	78.743	48.701	24.752	13.943
Own resources	37.069	46.970	49.909	33.509	33.365
Debt	138.080	36.716	8.793	3.198	4.251
TOTAL	**220.343**	**162.429**	**107.403**	**61.459**	**51.559**

11. FUNDING SOURCES

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

- **Tariff:** In December 2005 the government approved the Tariff approach to funding the infrastructure needed for the next phase of growth in Milton Keynes. The approval allowed English Partnerships, the government's regeneration agency, to act as banker by providing the advanced funding needed to ensure that the essential physical and social infrastructure required for the Eastern and Western Expansion Areas was in place at the right time. The management of the tariff was transferred to Milton Keynes Council in 2013 and as the operator of the Tariff; the Council is also responsible for controlling expenditure across the whole Tariff mechanism. Through the Tariff mechanism, the Council will collect over £310m in developer contributions over its lifetime, which will be re-invested in a Programme of strategic and local infrastructure covering a total of 18 'portfolios', 11 of which are delivered through the Council and are included with the Council's capital programme as schemes are brought forward.

- **S106 Developer Contributions:** In addition to Tariff funding the council also receives funds from Developers under S106 agreements. S106 funding is agreed with developers on individual site by site basis and sums are provided to mitigate the harm caused by the development. This funding can only be used for the original intended purpose.

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

12. MINIMUM REVENUE PROVISION (MRP)

Capital expenditure incurred before 1st April 2008

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

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

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

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

Capital expenditure incurred from 1st April 2008 onwards

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

12.6. The MRP calculation also provides for:

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

13. ASSETS FOR FUTURE DEVELOPMENT

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

14. PROPERTY FUND FOR TEMPORARY ACCOMMODATION

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

15. CAPITAL FINANCING REQUIREMENT

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

15.2. The Council's CFR increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) / loans fund repayments and capital receipts used to replace debt. The Council's CFR is expected to decrease by £0.950m during 2019/20. Based on the above capital programme figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 3: Prudential Indicator: Estimates of Capital Financing Requirement

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
General Fund services	420.220	462.069	464.373	461.082	458.846
Council housing (HRA)	220.832	229.296	227.942	226.549	225.546
Capital investments	36.217	5.000	5.000	5.000	5.000
TOTAL CFR	**687.269**	**696.365**	**697.315**	**692.631**	**689.392**

16. ASSET DISPOSALS

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

16.2. The Council plans to receive £8.145m of capital receipts in the coming financial years (2019-22) as follows:

Table 4: Capital receipts

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
Asset sales GF	3.690	3.235	2.622	0.250	0.250
Asset sales HRA	9.351	0.220	4.593	0.220	0.220
Loans repaid	0.589	30.922	0.000	0.000	0.000
TOTAL	**13.630**	**34.377**	**7.215**	**0.470**	**0.470**

16.3. The Council has various land holdings which are currently being taken forward for development. It is expected these sales will generate the Council significant capital receipts over the period from 2020/21 to 2026/27, although actual values and pace of delivery will be dependent on market conditions. The structure of the proposed agreement between Milton Keynes Council and the other land owners means that the upfront financial liability for the infrastructure will fall on the developer, with the Council receiving a net income stream. The first call on receipts is to repay all infrastructure costs. This means the Council will only benefit as receipts exceed the investment. For this reason no assumptions have been made in the capital programme on the use of these receipts.

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

17. TREASURY MANAGEMENT

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

17.2. At November 2018, the Council had £490.1m borrowing at an average interest rate of 4.4% and £219.4m of treasury investments at an average rate of 1.0%.

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

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

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

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
Debt	488.479	479.503	465.399	458.372	448.639
CFR	687.269	696.365	697.315	692.631	689.392

17.5. Statutory guidance states that debt should remain below the Capital Financing Requirement, except in the short-term for cashflow management purposes. As can be seen from Table 6 above, the Council expects to comply with this in the medium term.

17.6. **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning indicator should debt approach the authorised limit.

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

	2018/19 limit £m	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m
Borrowing limit	745.0	745.0	740.0	735.0
Other long term liabilities limit	10.0	10.0	10.0	10.0
Authorised limit – Total	**755.0**	**755.0**	**750.0**	**745.0**
Borrowing limit	715.0	715.0	710.0	705.0
Other long term liabilities limit	10.0	10.0	10.0	10.0
Operational Boundary – Total	**725.0**	**725.0**	**720.0**	**715.0**

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

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

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

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

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

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

18. INVESTMENTS FOR SERVICE PURPOSES

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

18.2. Governance: Decisions on service investments are made by the relevant service director in consultation with the Corporate Director Resources and must meet the criteria and limits laid down in the treasury management strategy. Most loans and share investments are classified as capital expenditure, so any such transactions will therefore also be approved as part of the capital programme approval process.

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

19. COMMERCIAL ACTIVITIES

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

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

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

20. OTHER ACTIVITIES

20.1. Milton Keynes Development Partnership (MKDP)

In 2012/13, the Council lent £31.6m to its wholly owned subsidiary Milton Keynes Development Partnership (MKDP) to finance the acquisition of assets from the Homes and Communities Agency (HCA). The balance outstanding at 31st March 2018 was £30.797m. MKDP plan to repay this debt to the Council through proceeds from the strategic sale of assets. The Council is funding the debt servicing costs of this loan until 31st March 2019 through New Homes Bonus grant to allow MKDP to develop sustainable income streams.

20.2. YourMK LLP

The Council has lent £0.5m in tranche payments to YourMK (a 50% joint-owned partnership with the Mears Group). YourMK is a partnership which between the Council and Mears Group to deliver regeneration and other development on council land and it is responsible for all Housing land under the Council. At 31st March 2018, the Council's investment holding was valued at £0.510m which represents an unrealised gain through accruing compound interest. This investment generated £10,206 of investment income for the Council at an average rate of return of 3.52%. This is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

20.3. National Homelessness Property Fund

The Council holds a £5m principal investment (match-funded by external investment) in the National Homelessness Property Fund (the Fund). This investment was undertaken for service reasons to reduce the ongoing cost to the Council of providing temporary housing accommodation. At 30 June 2018 (latest available) the Net Asset Value of the Council's investment was £4.546m, which represents an unrealised revaluation loss against principal of £0.467m. The unrealised valuation loss is due to the basis of property asset valuation; the assets were acquired on an Open Market Value (OMV) basis, but have been revalued at Existing Use Value (EUV) based on sub-market rental income streams to reflect the ongoing use as temporary accommodation. If the assets were sold to liquidise the Council's investment, it would be with vacant possession and thus the valuation method would revert back to OMV, so it is expected that the book loss would be fully recovered and with additional capital/housing market growth. The first two income distributions received in August and November 2018 totalling £0.123m. The Fund provided 14,988 bed-nights during 2017/18 which has resulted in a saving of £45,000 against alternative temporary placement costs. Income and savings at these levels for the full financial year 2018/19 would be is equivalent to a 5.8% return on investment, which is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

20.4. **Governance:** Decisions on commercial investments are made by Corporate Director Resources in line with the criteria and limits approved by Council in the Treasury Management Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use can be found in the Council's Treasury Management Strategy

21. LIABILITIES

21.1. In addition to debt figures detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £392m). It has also set aside £26.214m to cover risks of Business Rates Appeals, and £3.094m for other risks, of which £2.301m relates to insurance provision. The Council is also at risk of having to pay for major contingent liabilities but has not put aside any money as the amounts or obligations are uncertain.

21.2. The most significant contingent gains and losses disclosed in the council's accounts for the year ending 31 March 2018 are as follows:

- In January 2013 the council took over the management of the Milton Keynes Tariff, which is a framework Section 106 agreement under which developers contribute to the provision of local and strategic infrastructure to mitigate the impact of growth. The terms of the funding agreement state that the council will manage the expenditure so that the tariff deficit is managed down to zero by the risk share cut-off date. In the event that this is not achieved, a risk sharing agreement is in place with the Homes and Communities Agency and the Ministry of Housing, Communities and Local Government to allocate the first £22.0m of any deficit in the proportion 10:5:7. The council will be liable for any tariff deficit in excess of the risk share. The council is currently of the view that there will be no deficit share for which it will be liable. A separate risk reserve is held to mitigate any future impact £4.351m.
- Milton Keynes Council has entered into an agreement in accordance with Section 11(6) of the Local Government Act 2003 which enables the council to retain additional capital receipts. These additional receipts must be used towards the provision of new affordable housing within the borough. If, following three years from the date of receipt, any of the capital receipt remains unspent by the council, the remaining element is required to be repaid. Any repayment due will be subject to interest 4% above the base rate at the date of expiry. At the 31 March 2018 the value of receipts that were not allocated to a specific project was £8.006m.
- Due to the uncertainty in terms of both timing and amounts Milton Keynes Council have estimated a provision for future reduction in business rate appeals arising from the business rates revaluation on 1 April 2017. As such, the potential for further reductions above or below this amount is a potential liability to Milton Keynes Council which cannot be estimated at this time.

- Milton Keynes Council has not been able to disclose an asset in the Collection Fund accounts for rating amendments which have not yet been completed by the Valuation Office. This is because they are uncertain both in terms of amount and timing; as such, the potential for further income is unknown and so a contingent asset is disclosed within the Statement of Accounts.

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

22. REVENUE BUDGET IMPLICATIONS

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

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

Proportion of net revenue stream	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund	7.72%	10.49%	10.11%	10.07%	9.80%
HRA	37.16%	38.88%	38.03%	36.78%	35.09%

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

23. KNOWLEDGE AND SKILLS

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

23.2. Where the Councils staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors, Chrystal Consulting Limited as leasing advisors and PWC as VAT advisors. This approach ensures the Council has access to specialist expertise when needed to support its staff, commensurate with its risk appetite.

24. LINKS TO COUNCIL STRATEGIES AND PLANS

The Council Plan: Council June 2018

Plan MK:

Local Investment Plan: Cabinet March 2015

Mobility Strategy: Cabinet March 2018

Regeneration Strategy: Cabinet July 2015

Highways Asset Management Strategy: Cabinet March 2018

Financial Procedures

2017/18 Statement of Accounts

Treasury Management Strategy

25. LINKS TO EXTERNAL DOCUMENTS

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

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

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