

# MILTON KEYNES COUNCIL

## Submission to the Minister for Local Government June 21, 1999

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#### Summary

Milton Keynes' population is growing by 3,000 each year. The Government's grant distribution mechanism uses data that lags two years behind. The cost to Milton Keynes Council of supporting over 6,000 residents, for which it receives no support, is £3m to £5m a year.

In addition, Milton Keynes has unique features that cost the Council £1.2m more than is recognised by the Government.

## **1 UNIQUENESS**

Milton Keynes is this century's last, and largest, planned UK city. It was created by Government and brought into the world by the Milton Keynes Development Corporation and the Commission for New Towns [CNT]. It is still growing. Its creators learned from other world models, particularly from the west coast of America, resulting in Milton Keynes having 'planned-in' features that are not found in any other UK city. These include:

- The one kilometre-grid road system, much of which is dual carriageway;
- Mass inner-city parking for 15,012 cars;
- A separate pedestrian/cycleway system, some 256km long and lit at night;
- Decentralised mixed-use, with workplaces scattered throughout the urban landscape, rather than concentrated in one area;
- A low rise building style for commercial, industrial and domestic accommodation, giving a greater sense of living space;
- Extensive, linear parks with high quality landscaping and public open space;
- Innovative mass accommodation, with high energy saving features;
- A high level of rurality, with 57% of the Council's area outside the 'city' boundary, containing 30 villages and three small towns, Newport Pagnell, Olney and Woburn Sands;

There are some aspects of this unique inheritance, that passed to the new Unitary Council in April 1997, that are problematic.

- No assets. The Council, like Liverpool, has a very low asset base. The majority of the undeveloped land is held by English Partnerships [previously the CNT]. The Council had to sell its one major asset, in 1997, to help fund expenditure that was unforeseen at the point of handover;
- The area is still growing. Major regional developments are taking place - a theatre, a snow dome, an enlarged shopping centre, more homes - that will place new demands upon the infrastructure, and attract more people to Milton Keynes. The Council has little control over most of this development, for practically all the undeveloped land, amounting to 20% of Milton Keynes, is held by another body (English Partnerships) which retains the right to authorise development under the New Towns Act;
- Youthful population - over 46% of the population is aged below 30, compared to the national average of 41%. This requires a major new school building programme, and because of the Council's low asset base, presents a land acquisition problem;
- Transport difficulties - the advantage of more living space is offset by dependence upon the car - 88% of journeys are by car and public transport is poor. If people don't have a car, the alternative is a bus system that is expensive, inadequate and 7 times slower than the car.

With no recognisable transport pattern - the consequence of decentralised industry/commerce and diffused housing - access for the young and old is a major unresolved difficulty;

- Budget difficulties - we will develop this aspect in greater detail later. It will be sufficient to set out the headings that, combined, accentuate Milton Keynes' uniqueness:
  - Funding
    - Underfunded from the start;
    - SSA should be higher;
    - Had to use balances;
    - 1999-2000 expenditure increased in line with Government target.
  - Expenditure
    - Delivering change and constant growth;
    - High cost features;
    - Unfunded features;
    - Inherited contracts; locked into spending;

## 2 POPULATION

Milton Keynes' population is 206,300 and is one of the fastest growing population centres in England. Using past trends, its population is projected to rise by 29% between 1996 and 2021, compared to the overall England increase of 7% [ONS 1996-based projections]. However, according to Structure Plan policies, in-house projections show that Milton Keynes will continue to grow until it reaches its planned 259,190 in 2011, a much larger increase of almost 32%, reached well before the ONS cut-off year of 2021. There is the additional possibility that it could have to accommodate further development to help address the predicted level of new household formation in the south east, thus pushing the population figure up even further.

The unique mix is illustrated in the table below. The rate of change in Milton Keynes is far greater than the national average:

**Table: Percentage change in population 1998-2011**

Age band	Increase in Milton Keynes	Increase nationally
0 - 4	+ 30%	- 7%
5 - 16	+ 11%	- 5%
17 - 24	+ 31%	+ 12%
60 & over	+ 59%	+ 15%

As we have seen, it is a youthful population. The increase in school population requires three new schools to be opened this year, a common occurrence in Milton Keynes.

For the first time, the ONS forecasts have been disaggregated below County level to Unitaries. The ONS forecast of June population, bears out that Milton Keynes Council has one of the fastest growing populations in England:

**Table: ONS Population Forecast 1997 to 2000 for Milton Keynes Council**

1997	200,300
1998	203,300
1999	206,300
2000	209,100

The data used by DETR in the 1999-2000 settlement was the Registrar General's 1997 estimate, at 200,081. This is just over 6,200 [or 3.1%] less than the actual population Milton Keynes Council has to service, as forecast by ONS.

This problem of data lag - wholly funding services to 6,200 people - will continue for eleven or more years. The annual cost of servicing the people that are not recognised by the Government's funding mechanism is £3m to £5m, depending on the 'SSA mix' of the additional people.

Over the lifetime of the unitary Council, to date this amounts to £9m to £15m of funding that Milton Keynes Council has had to find.

### 3 MONEY

#### Funding

Data starting point - when Milton Keynes Council was created, the previous Government imposed a net revenue expenditure limit for 1997-98 of £149.676m. Milton Keynes Council argued that it needed to spend more than this, and the basis of disaggregating the Buckinghamshire County Council [BCC] budget was unfair. Milton Keynes Council believed that £5m was retained by BCC that should have been transferred to Milton Keynes Council. The spending patterns for 1997-98 support this contention - firstly, BCC did not use all of its spending powers in 1997-98, by about £5m. Secondly, Milton Keynes Council was forced to reduce its Council Tax and had no choice about providing extra money for services. Thirdly, Milton Keynes Council had to re-budget to contain a projected overspend; specific net expenditure reductions of £6m and the use of £6.7m of reserves constituted the corrective action. Had Milton Keynes Council been able to budget from the higher base, over the lifetime of the Unitary, *some £15m would have been available to Milton Keynes Council* that has not been.

SSA should be higher - Milton Keynes Council's 1999-2000 SSA would have been £3-5m more than the actual £167.4m settlement, if DETR had had available to it, the new ONS forecast, and used those forecasts in the 1999-2000 RSG settlement. Over the life of the Unitary, this amounts to *£9m to £15m of funding foregone by Milton Keynes Council*.

Milton Keynes Council funds from balances - Milton Keynes Council has been supporting this 'unfunded service provision' from balances, as set out below:

**Table: Use of balances to support expenditure 1997-2000**

	£m	
• 1997-98	6.705	outturn
• 1998-99	7.218	outturn
• 1999-00	<u>2.596</u>	estimate
• Total	<u>16.510</u>	

This cannot continue; indeed Milton Keynes Council's three year budget assumes no balances are used in 2000-2001. The replacement funding is to be derived, in part, from savings arising from Best Value reviews. For 1999-2000, part of the replacement funding, for the £3m reduction in the use of balances, was the above average increase in the level of Council Tax.

An analysis of Milton Keynes Council's 1999-2000 budget shows that expenditure was not the problem [see Annex 1]; it was contained to an increase of 5.7%. The problem was funding the reduction in the use of balances. *In the light of £24m to £30m of missing resources, the use of balances to engineer a soft landing, is sensible financial planning.*

#### Expenditure

Spend is above SSA - Milton Keynes Council's budget, at £172.9m [including Parishes over which Milton Keynes Council has no control] is above its SSA of £167.4m by £5.5m. Milton Keynes has unique features that cost the Council £1.2m more than is recognised by Government. This is considered further in the next four points below:

1. Milton Keynes Council has to keep an organisation in being that must be equipped *to deliver high levels of change and constant growth*, compared to the less expensive task of running a steady state business. Milton Keynes Council has to add new facilities every year - roads, schools, refuse management - and plan for their smooth incorporation into the existing service structure.
  
2. Milton Keynes Council also has to provide *services that are uniquely costly*. Two examples are instanced:
  - School site acquisition - in relation to nine of the eleven schools in the building programme to 2007, the Council neither owns the land, nor has the planning powers in relation to the surrounding developments authorised through English Partnerships [EP]. In effect, this means that, even at the reduced site value agreed with EP, the Council has to fund 40% of the market value of each site without the facility of Section 106 agreements. By March 2000, the Council will have funded £8.2m from its own resources for its substantial £26.4m school building programme. The borrowing costs on the debt incurred of £18.2m will amount to £2.3m in a full year. The SSA scales this sum back, through the use of scaling factor of -16% in 1999/2000, giving rise to unfunded costs of £370,000;
  
  - Recycling - Milton Keynes Council pioneered green practices, as shown by the high percentage of waste it recycles [17% in 1998-99], to help deliver the Government's Agenda 21 locally. Other local authorities are beginning to adopt these practices, but have yet to realise how costly they are, as has the DETR support system. The financial effect is estimated to be £1m of additional costs above a landfill option.
  
3. Milton Keynes Council provides services that have *costs that are not recognised in part or full* by the Government support system.
  - Roads - dual carriageways which are not subject to speed limit of 40mph or less are classified as being non-built up roads. Milton Keynes Council has an above average proportion of its roads in this category, and consequently is under-supported in this area. The financial effect, is a cost to Milton Keynes Council of £230,000;
  
  - Redways - Milton Keynes was designed with an extensive 256km network of pedestrian/ cycleways that are unique, and being so, receive no Government support. The financial effect is a cost to Milton Keynes Council of £484,000;
  
  - School class sizes - the growth in the school population, and the increase in the number of schools, has made the school population volatile, such that schools can find that they are swiftly oversubscribed, or are undersubscribed. Some 77% of primary schools in Milton Keynes find that 19% of their capacity is spare; on the other hand, 20% of primary schools have more children than places, by 6%. Overall, 14% of the capacity is spare, a cost that reduces the direct support to pupils.
  
4. Finally, Milton Keynes Council inherited *contracts or other arrangements*, that *locked it into levels of expenditure* the Council could not quickly change. Two contracts, that are to be renewed from April 2000, are exemplified:
  - Cleansing [Refuse collection, recycling collection & street cleansing] £6.5m

- Waste disposal £0.7m

Had the Council been able to tender these contracts earlier, significant savings could have contributed to reducing the expenditure growth.

The *other arrangements* concern the debt attributed from BCC to Milton Keynes Council. The Council is required to fund a portion of the debt of BCC. Milton Keynes Council has consistently argued that BCC has applied the default regulations to the detriment of the Council. (The issue relates to the way in which the Council is charged for BCC's internal borrowing at higher external rates). This is not the way other re-organised areas have treated the issue. This real loss amounted to £250k in 1997/98, and £107k in 1998/99, and a similar sum in 1999-2000.

### Summary

The cost of Milton Keynes' unique features in 2000-01 will be at least £1.2m, as set out below:

**Table: Cost of unique features 2000-01**

	£
School building programme	370,000
Roads	230,000
Redways	484,000
Debt	<u>107,000</u>
	<u>1,191,000</u>

## 4 WHAT HAVE WE DONE ABOUT IT

A strategic framework - in the short time Milton Keynes Council has been in existence, it has moved from uncertainty concerning what it was inheriting, to a three year budget framework centred on continuous improvement. The budget planning has deferred expenditure to later years, set stringent targets for the delivery of service efficiencies, aligned the policy and budget cycles and sought to eliminate the use of balances to fund on-going expenditure. Milton Keynes Council inherited spending patterns that are being changed to better fit policy objectives - for example,

- Moving £600k of Childrens Service expenditure [by fostering children in Milton Keynes rather than all around the country], which is 70% above SSA, to schools budgets, that are £3.7m below SSA;
- Completing four Best Value reviews and commencing a further five this summer;
- Participating in a Single Work Focused Gateway pilot;
- Implementing a sub-PFI contract to bring document image processing and workflow efficiencies to the Housing Benefit and Revenues operations.

Aware that the 1999-2000 budget presented difficult choices, Milton Keynes Council consulted widely on the level of Council Tax and services that the public would prefer. The Referendum had almost twice the level of participation of local elections, with the majority of residents supporting the 9.8% increase, or a higher increase.

The increase in the 1999-2000 budget of £12.263m, from 1998-99 to 1999-2000, was largely driven by external factors, including demographic growth, and the need to reduce the use of balances - they constituted 89% of the increase. As can be seen at Appendix 2, there were net service savings of £2.7m, which helped pay for £4m of inflation.

Milton Keynes Council has already begun the budget process for 2000-01 and the following 2 years. The initial conclusion is that, despite factoring in savings and a 5% Council Tax rise, in accordance with Government guidelines (CSR), some £4m of savings are required. In 2001-02, further savings of £2m are required.

Milton Keynes Council will be looking to protect services, of which the biggest element is Education, to deliver the Government's agenda of change. Milton Keynes Council is a lean organisation, highly praised for innovative partnership and public consultation arrangements, and innovative organisational structures with many services provided externally. Consequently Milton Keynes Council is looking for innovative solutions to assist in resolving its budget problems, which must include income maximisation.

## 5 THE WAY FORWARD

Milton Keynes Council would be happy to assist the Government in exploring the use of the ONS forecasts for grant distribution purposes. The unique position of Milton Keynes Council, whereby it has to fund services for over 6,000 people, with no external support, is overdue for resolution.

Milton Keynes Council has explored with the English Partnerships [previously the Commission for New Towns] the issue of 'undue burden' [New Towns Act 1981, S36 & S37]. Whilst English Partnerships is sympathetic, Milton Keynes Council has been unable to make progress in this area. Indeed, the Parliamentary Under Secretary of State, in his letter of April 21<sup>st</sup> 1999, reminded Milton Keynes Council that any application for grant requires the consent of the Secretary of State.

*Milton Keynes Council would wish to explore these two areas - data lag and undue burden grant - with the Government, to unlock the £3m to £5m of missing data lag funding and the £1.2m for undue burden, for 2000-01.*

At the same time, Milton Keynes Council will press on with its Best Value reviews and programmes for continuous improvement. An early resolution of the missing funding issue would ensure that the focus of attention at Milton Keynes Council is concentrated on the key issues of delivering the Government's agenda and that the level of Council Tax is consistent with the Government's aims.

The table below shows that net operating spend increased by 5.75%, but the £3m reduction in the use of balances, converted the increase in budget requirement, on a 1999-2000 spend of £171,208k, to 7.9%. However when this figure is reviewed, it shows that spend is not the problem, but rather, the problem is that of a reducing use of balances.

**Table: Spend is under control; its the balances that are the problem**

	1998-99 Original Budget £k	1999-2000 Original Budget £k	Increase  £k	Increase  %
Net cost of services	167,152	175,575	8,423	5.04
Levies	4,954	5,199	245	4.95
Debt Financing less Asset Rents	- 6,509	- 6,552	- 43	0.66
Reduction targets	<u>- 1,246</u>	<u>- 419</u>	<u>827</u>	<u>-66.37</u>
<b>Net Operating Exp</b>	164,351	173,803	9,452	<b>5.75</b>
Less, Reserves etc	<u>- 5,626</u>	<u>- 2,596</u>	<u>3,030</u>	<u>-53.86</u>
MKC budget requirement	<u>158,725</u>	<u>171,207</u>	<u>12,482</u>	<u>7.86</u>

## Appendix 2 - 1999-2000 increase in Milton Keynes Council budget    Appendix 2

Most of the increase in the Milton Keynes Council budget, amounting to 89%, was driven by external factors:

	£m	
• External factors/balances		
• Reduced use of reserves	4.702	
• Increase in Net Debt Financing	1.832	
• Loss of Special Transitional Grant	0.963	
• Increase in Levies	0.253	
• Demographic growth	<u>3.115</u>	
• Total		10.865 or 89% of the total
• Inflation		
• Cost increases	4.698	
• Fees and charges	<u>0.632-</u>	
• Total		4.066
• Service changes		
• Increase in Education Standards Fund	0.600	
• Other Service increases	0.940	
• Service decreases		1.675-
• Efficiency savings	<u>2.533-</u>	
• Total		<u>2.668-</u>
		<u>12.263</u>

### Movement

1999-2000 MKC budget	170,988,114	[excludes Neighbourhoods & Parishes]
1989-1999 MKC budget	<u>158,725,498</u>	[excludes Neighbourhoods & Parishes]
Movement	<u>12,262,616</u>	