Wards affected: All Wards

ITEM 12

CABINET

6 DECEMBER 2016

DRAFT COUNCIL BUDGET 2017/18

Responsible Cabinet Member: Councillor b Middleton (Cabinet member for Resources and Innovation)
Report Sponsor: Nicole Jones, Corporate Director Resources Tel: 01908 252079
Author and Contact: Nicole Jones, Corporate Director Resources Tel: 01908 252079

Executive Summary:

This report recommends the draft Revenue Budget 2017/18, draft Capital Programme for 2017/18 to 2020/21 and the draft Housing Revenue Account Budget 2017/18 for the approval of the Cabinet.

The details in this report have been prepared in accordance with the framework set out in the Financial Sustainability Plan (FSP) which is included elsewhere on this agenda.

The draft Revenue Budget includes the recommendation for a 3.95% Council Tax increase; this includes 2% for the Adult Social Care precept, which will contribute to the costs of providing adult social care services, where there are substantial extra demands on these services now and into the future.

The draft Revenue Budget provides £11.6m of extra money to meet additional demand for our critical services in particular:

1 - Housing – in the last five years, we have faced a fivefold increase in people needing temporary accommodation.

2 - Adults Social Care – each day, we make 446 home care visits.

3 - Children's Social Care – in last five years, child protection investigations have almost doubled.

In addition to this extra demand on our critical services, we face a £13.3m Central Government funding cut - a 15% reduction – at a time when we forecast to lose 44(fte) from our workforce in 2017/18 and will need to lose more over the medium term.

To offset this, the Council is reluctantly proposing £11.9m of budget cuts and £7.4m of additional income proposals, which have been developed in accordance with the administrations key principles of smarter, sustainable and different and to reflect the priorities in the Council Plan.

The Capital Programme includes significant investment in 8 new school builds and 12 expansions, highways improvement works and contributions to the gallery and museum. Although it must be noted that there remains a substantial medium term shortfall in the city's future infrastructure, owing to the rapid expansion of the city.

The HRA Budget includes the required 1% rent reduction and identifies resources for new build housing and regeneration.

1. RECOMMENDATIONS

1.1 That the draft Revenue Budget 2017/18 and Capital Programme for 2017/18 to 2020/21 to be approved as a basis for consultation.

1.2 That the provisional Council Tax at Band D of £1,253.68 for the Milton Keynes element of the Council Tax be agreed for consultation, a 3.95% increase on the previous year. This includes the additional 2% levy offsetting some of the additional costs arising from the increase in demand for adult social care.

1.3 That the estimated position for Dedicated Schools Grant for 2017/18 be noted.

1.4 That the draft Housing Revenue Account Budget, including the required 1% rent decrease, be noted.

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

1.6 That the proposed fees and charges for 2017/18 which are exceptions to the Income and Collection Policy be noted.

1.7 To approve flexibility in the setting of fees and charges for commercial services, as set out in paragraph 5.18 and annex G.

1.8 That the equalities impact assessments for the draft Revenue Budget 2017/18, as set out in paragraph 16.6 be noted.

1.9 That the resource allocation for the draft Tariff Programme (annex J) and draft Capital Programme 2017/18 to 2020/21 be noted (annex I).

2. INTRODUCTION

2.1 The Council's Financial Sustainability Plan (FSP) which is included on this agenda, set outs:

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

2.2 The draft Revenue Budget and draft Capital Programme set out in this report, have been developed in accordance with the Council Plan and the Financial Sustainability Plan.

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

Section 3 – Delivery of Council Plan

Sections 4 to 6 – **Draft Revenue Budget 2017/18 (General Fund)**

- General Fund Resources
- General Fund Expenditure

- General Fund Budget Reductions/Income
- Other Issues
- Summary of Draft Revenue Budget 2017/18

Section 7 – Parking Account

Section 8 – Capital Programme

- Capital Resources
- Capital Expenditure
- Summary of Capital Programme

Section 9 - Other Funding

- S106 Funding
- Tariff Funding
- Dedicated Schools Grant

Section 10 - Budget Consultation

Section 11 - Robustness and Risks

Section 12 – Housing Revenue Account

Section 13 - Related Decisions

Section 14 - Background

Section 15 – Annexes

Section 16 – Implications

3. DELIVERY OF COUNCIL PLAN

3.1 The Council Plan sets out three key aims:

- A city of opportunity
- An affordable city
- A healthy city

3.2 This Budget supports the delivery of the Council Plan both through choices of where investment continues but also in areas where services are not being reduced. Some of the key examples of enabling the delivery of the Council Plan are:

Table 1: Enabling the Council Plan

Enabling the Council Plan	Reference	Opportunity	Affordable	Healthy
Confirming resources for Plan:MK	Planning, Infrastructure & Culture Budgets (no specific pressure)	Y	Y	Y
Maintaining the delivery of Council House Building	HRA Capital Programme	Y	Y	Y
Reducing the use of Bed and Breakfast for temporary accommodation, through alternative solutions	Housing & Community Budget (S66, S67, S68, S73a, S73b, S74, S158)	Y	Y	Y
Maintaining commitment to community led Regeneration	Housing Revenue Account	Y	Y	Y
Enabling a one-stop shop for homelessness	Housing & Community Budget (no specific pressures as yet)	Y	Y	Y
Investing in support for vulnerable young people and maintaining preventative work through the network of children's centres	Children & Families (S55) (no reductions in children's centres)	Y	Y	Y
Not reducing funding for HIV, sexual health or domestic violence	Managed within the expected reduction in Public Health funding allocation.			Y
Continuing to implement the Learning Disability Review and the Ethical Care Charter	Adult Social Care LD Review OP4 and S41, S42. Ethical Charter: ASC pressure P15 & Resources P5	Y	Y	Y
Maintaining improvement work on the mental health offer	Adult Social Care - future year budget pressures identified ref P60.	Y		Y

Enabling the Council Plan	Reference	Opportunity	Affordable	Healthy
Investing in enabling the delivery of MK Futures	Corporate Core Budgets (pressure OP16)	Y	Y	Y
Continuing to invest to provide new school places to meet additional pupil needs	Children's Capital Programme			Y
Maximising benefits from current LGSS shared service offer	Resources Budgets; S3, S4, S5, S6, S7,S8, S9,S10,S11,S12		Y	
Maintaining investment in Highways and Infrastructure, to address backlog issues	Transport Capital Programme (maintaining prudential borrowing in Revenue to address backlog)		Y	Y
Investment in Redways	Transport Capital Programme	Y	Y	Y
Not cutting public transport budgets	No reductions on Community Transport or Bus Subsidies		Y	Y
Developing proposal for new Multi-storey car park	Decision going to Cabinet in January	Y	Y	
No increases in standard rate parking charges until at least 2018	No increase has been included in the proposals		Y	Y
Additional match-funding for cultural offer	Planning, Infrastructure & Culture Budgets (pressures P55, OP18)	Y		Y

3.3 There are two areas in the Council Plan where additional work is still taking place before sufficient information is available to incorporate plans into the Budget, these are:

- Work on the Waste Strategy and any resulting investment requirements from potential changes.
- Work with partners on providing a multi-agency hostel which can address problems which result in some people becoming and remaining homeless on the streets and unable to engage with the current services

available. At present discussions are in early stages, a site and proposals needs to be developed before the financial consequences are known.

4. DRAFT REVENUE BUDGET 2017/18

General Fund Resources - Ongoing

4.1 The Council is forecasting to receive £17.4m in Revenue Support Grant (RSG) in 2017/18, which is a 36% cut in the £27m of funding we received in 2016/17.

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

4.3 The Council estimates it will retain £47.1m of the £151m of Business Rates collected during 2017/18; of this amount £43m is the Council’s Baseline Funding Level; the remaining £4.1m represents the estimated retained amount of funding since 2013/14 resulting from business rate growth. This represents an average additional income of just £1m each year.

4.4 The Government continues to work with local government on the planned phasing out of the RSG in line with local authorities being able to retain 100% of the local Business Rates collected (subject to adjustments) by 2020. It is important to note that the 100% retention applies to the whole system not each local area. It is too early to determine what the changes to the system may mean for Milton Keynes at present.

4.5 Total Government funding is estimated at £76.4m for 2017/18, compared to £89.7m from 2016/17, a reduction of 14.8%.

4.6 The Government will provide individual local authority funding allocations in December 2016, as part of the Provisional Financial Settlement, which will then be later confirmed in February 2017. The Council submitted its Financial Sustainability Plan to the Department of Communities and Local Government to allow it to access the four-year settlement for RSG and Tariff’s on Business Rates. It is expected that the four-year position will be confirmed in December, following the Chancellor’s Autumn Statement.

Council Tax

4.7 The ability for local authorities to raise a new ‘Social Care Council Tax Precept’ was announced by the Chancellor as part of the 2015 Autumn Statement; this allows local authorities to raise their Council Tax by an additional 2%, over and above the current 2% Council Tax referendum threshold, as long as the additional income generated, supports Adult Social Care expenditure.

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

4.9 The Council is currently spending £68m per year on Adult Social Care and Health Services. Over the next three years the current forecast identifies a need to spend a total of £11.2m extra (on an ongoing basis), and £1.0m on a one-off basis on Adult Social Care and Health Services, excluding pay inflation (by 2019/20). It is also likely these pressures will increase in the medium term. Against this, the additional Council Tax levy is expected to create £6.3m of income, so while helpful, the Council still needs to redesign services and generate efficiencies to ensure these services are sustainable for the medium term.

4.10 Council Tax income is anticipated to increase by £5.7m in 2017/18; this total comprises £3.9m of additional income due to a 3.95% increase to the charge (of which £2.0m will fund Adult Social Care service provision), and £1.8m of income as a result of the growth in the number of homes in Milton Keynes and other technical adjustments.

4.11 The 2017/18 Council Tax Base has increased compared to the previous assumptions. This is due to the positive impact on the Tax Base of:

- Additional forecast growth in 2017/18 Band D property numbers.
- A reduction in the number of people claiming Council Tax Reductions. This is attributed to people moving in to work and assumes the local economy will continue to improve, meaning fewer people will be entitled to discounts.
- The proactive approach to the introduction of Local Council Tax Reduction including; investment in easier ways to pay, a discretionary fund for hardship cases and publicity of the potential impact and support for those required to make a contribution, has resulted in collection rates being better than expected.
- A more in depth review of entitlements to discounts and in the inclusion of a new Empty Homes Premium to encourage empty properties to be brought back into use.

Ongoing Revenue - Key Assumptions

4.12 In summary, the following assumptions have been made to determine the likely resources available in 2017/18:

- An increase in the number of Band D properties of 1,229 homes, based on current projections.
- Government funding through Revenue Support Grant as per indicative four-year settlements issues in 2015 and Retained Business Rates from local estimates.
- Education Services Grant includes funding reductions for schools transferring from maintained settings to academies and the residual element is expected to transfer to the Dedicated Schools Grant and approval from the Schools Forum will be requested to recover funding to deliver the associated core support services.
- A 3.95% increase in Council Tax, taking the Milton Keynes Council precept to £1,253.68 for a Band D property.
- Public Health grant has been assumed to reduce by 2.5% in line with the Department of Health announcements.

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

Table 2: Summary of Forecast Revenue Resources for 2017/18

Revenue Resources	£m
Revenue Support Grant	(17.406)
Retained Business Rates	(47.100)
Education Services Grant	(0.700)
Specific Grant Funding Reductions	0.500
Council Tax (including parish precepts)	(108.695)
Public Health Grant	(11.700)
Total Ongoing Resources	**(185.101)**

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

General Fund - One-off Resources

4.14 In accordance with the Council's financial principles, the following one-off resources are available to use in the draft Budget 2017/18 to fund identified one-off pressures.

Table 3: Summary of One-off Revenue Resources for 2017/18

One-off Resources	£m
2015/16 Collection Fund surplus (latest projection)	0.900
2016/17 estimated Collection Fund surplus	1.300
One off Minimum Revenue Provision reduction in 2016/17 and 2017/18 as a result of the Policy (approved by Cabinet in October 2015)	7.200
Additional one-off funding as a result of returned New Homes Bonus top-slice	0.097
Total One-off Resources	**9.497**

General Fund Expenditure

4.15 In determining the forecast draft Revenue Budget expenditure for 2017/18 the following assumptions have been made:

- Goods and services general inflation will be offset by efficiency savings in services and are therefore set at 0%.
- Contractual inflation – based on existing contract agreements.
- 0.5% increase in fees and charges, apart from those exemptions and concessions listed in annex F.
- General employee pay inflation reflects the announcement from the national Government that public sector pay increases will be capped at 1% for the next three years.
- 1% increase in employee salary costs for increment awards.

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

4.17 The pressures identified in the draft Budget 2017/18 are summarised in Table 4.

Table 4: 2017/18 Budget Pressures

Pressures by Category	**£m**
Demography	7.072
Legislative	0.543
Councillor Choice	0.030
Invest to Save	0.215
General	2.648
Total Ongoing Service Pressures	**10.508**
Sustainability Items	1.078
Total Ongoing Pressures (See annex A)	**11.586**
One-off Budget Pressures (Service Groups)	5.219
One-off Budget Pressures (Corporate)	4.040
Total One-off Budget Pressures (See annex B)	**9.259**

4.18 On-going Budget pressures of £11.6m will be funded from on-going resources, with a further £9.3m of one-off expenditure being funded from identified one-off resources. This approach ensures that base budgets are not adjusted for one-off expenditure which is not ongoing. This leaves £0.2m of unallocated one-off resources.

Levies

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

4.20 In the case of Milton Keynes Council, the Environment Agency and the Buckingham and River Ouzel Internal Drainage Board both charge levies through the Council. These levies have yet to be confirmed for 2017/18, but for the purposes of this draft Revenue Budget it has been assumed that they will remain at the same level as 2016/17.

Table 5: Levies in 2017/18

Levying Authority	**£**
Environment Agency – Flood Defence (TBC Feb)	133,836
Buckingham and River Ouzel Internal Drainage Board (TBC Feb)	324,373
Total	**458,209**

Precepts

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

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

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

5. General Fund Budget Reductions/ Income

Strategy for Balancing the Budget

5.1 The combination of the increase in costs arising from an increase in both the cost and demand for services, and the significant cut in Government funding, means that the draft Budget 2017/18 needs to include budget cuts and additional income which total £19.5m.

5.2 Since 2011/12 the Council has delivered £90m of cuts, and is currently delivering a further £21.6m of cuts in 2016/17, which means the choices for 2017/18 are far more difficult to identify and deliver. The combination of continued Government funding cuts and significant increases in demand for services mean that the need for financial reductions will continue until 2020/21.

5.3 The strategy for addressing the medium term financial pressures is set out elsewhere on this Cabinet agenda in the Financial Sustainability Plan. The three key principles that underpin the financial medium to long-term plan are as follows:

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

5.4 A summary of the budget reductions and income proposals are shown in Table 6. The detail of the individual budget reduction and income generation proposals is included in annexes C1 and C2.

Table 6: Budget Reductions/Income Proposals 2017/18

Savings by Key Principle	£m
Budget Reductions	
- Smarter	6.999
- Sustainable	1.993
- Different	2.888
	11.880
Income Generation Proposals	
- Smarter	1.127
- Sustainable	3.108
- Different	3.217
	7.452
Total ongoing budget reduction/income proposals (see annexes C1 and C2)	**19.332**

Reserves

5.5 An assessment has been carried out and is included in Annex D which shows the level of risk exposure for the Council on known issues; the earmarked reserves available to offset these risks and the residual assessment of the level of General Fund Balances. This also includes identifying the level of the earmarked risk reserve related to the implementation of Budget savings.

5.6 It should be noted that the Council has addressed £90m of financial pressures since 2011/12, this means the relatively easy solutions have been taken and the proposals now being developed are more complex and challenging to deliver. This will increasingly become the case over the next three years, when funding is expected to continue to reduce and demand for services is likely to increase. Reserves can only be spent once, it is important that Councillors take account of the level of future risk, as well as the risk identified in the 2017/18 draft Budget.

5.7 The most significant additional risk is a move to Government funding being entirely through retained Business Rates. The current system has shown that national Government announcements impact on local funding and there is substantial volatility in the funding received through the impact of national and local appeals; pace of the Valuation Office assessments for new growth and the uncertainty of business growth. At present the Council can lose £12m of funding before any support from national Government through the “safety net” is available. As Council’s are likely to be given additional responsibilities and retained Business Rates will be the only source of Government funding, it is important future risks are considered as part of the reserves strategy going forward. Relying on a volatile income stream to fund critical statutory services means the Council’s ability to smooth peaks and troughs using reserves to prevent in year cuts, will become more critical.

5.8 The risk assessment carried out alongside the development of the Budget (annex D), shows that the minimum prudent level of General Fund reserves continues to remain at £7m.

5.9 As the Council’s overall budget reduces and more of this budget is incorporated into shared service or joint venture arrangements the ability to cope with financial challenges in year reduces. This indicates higher levels of reserves are likely to be required in future to maintain prudent financial position.

5.10 The 2016/17 Budget is currently overspending by £3.2m (period 8), following the use of £6.8m of one-off resources. The overall risk assessment therefore shows the need to set aside a further £3m to address the risk with the timing and delivery of budget reductions and additional income or other risks and issues which may arise during the financial year. The rationale for this level of reserve is also set out in annex D.

5.11 It is therefore estimated that the General Fund Balance should begin the year at £7m, with an additional £3m set aside in an earmarked risk reserve. The one-off pressures reflect the resources required to create or maintain these reserves.

Recharges

5.12 A recharge is a cost apportionment of a support service to a front line service, to notionally show a full cost of providing these services including overheads.

5.13 The Service Reporting Code of Practice requires Council's to determine the full cost of services, by allocating overheads to these services. The methodology for recharging central services has been reviewed for 2017/18. The revised methodology is set out in annex E. This methodology takes account of both the Code of Practice published by CIPFA and International Financial Reporting Standards.

5.14 Over the last five years the cost of support services has fallen by 30% (£6.4m) in cash terms. When the additional costs for inflation are included this reduction is almost 40% (£8.2m). In future years the level of recharges is expected to continue to fall, as overheads including the cost of support services continue to be reduced, although charges to individual services may increase or decrease depending on their relative size to the remainder of the Council.

Fees and Charges

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

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

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

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

5.17 The exemptions to the Income policy are outlined in annex F.

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

Local Council Tax Reduction Scheme

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

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

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

5.22 In November 2016, Milton Keynes Council's Cabinet confirmed the current Local Council Tax Reduction Scheme to remain in place for 2017/18. This will provide individuals a level of certainty about the support they will receive, and enables the Council to review the scheme to inform any proposed changes in the future. Continuing with this scheme would mean the maximum level of Council Tax support for working age claimants would be maintained at 80%.

5.23 A full Council decision is required to formalise the Cabinet approval and this decision is due to be made in January 2017. This draft Budget assumes this approval is given.

Local Council Tax Reduction Funding

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

5.25 Additional national Government funding is provided to the Council through the Revenue Support Grant (RSG), to partially offset the reduced tax base for parish and town councils, arising from the introduction of the Local Council Tax Reduction Scheme. Over the medium term it is expected that RSG will continue to reduce year on year and will eventually be phased out as funding moves to the new Business Rates Retention scheme from 2020/21.

5.26 However, the Council Plan sets out the commitment to maintain support to parishes and therefore for 2017/18 the funding for parish and town councils will remain at £0.530m.

5.27 The Council Tax Base and Business Rates Baseline report approved by Cabinet in November 2016, provides further details on the funding for town and parish councils for 2017/18.

6. Summary of Draft Revenue Budget 2017/18

6.1 In total, the draft 2017/18 Revenue Budget includes £26.3m of ongoing budget pressures and funding reductions, and £9.3m of one-off pressures, offset by £19.5m of savings, £6.0m of additional income and £9.3m of one-off funding.

Table 7: Summary Draft Revenue Budget Position 2017/18

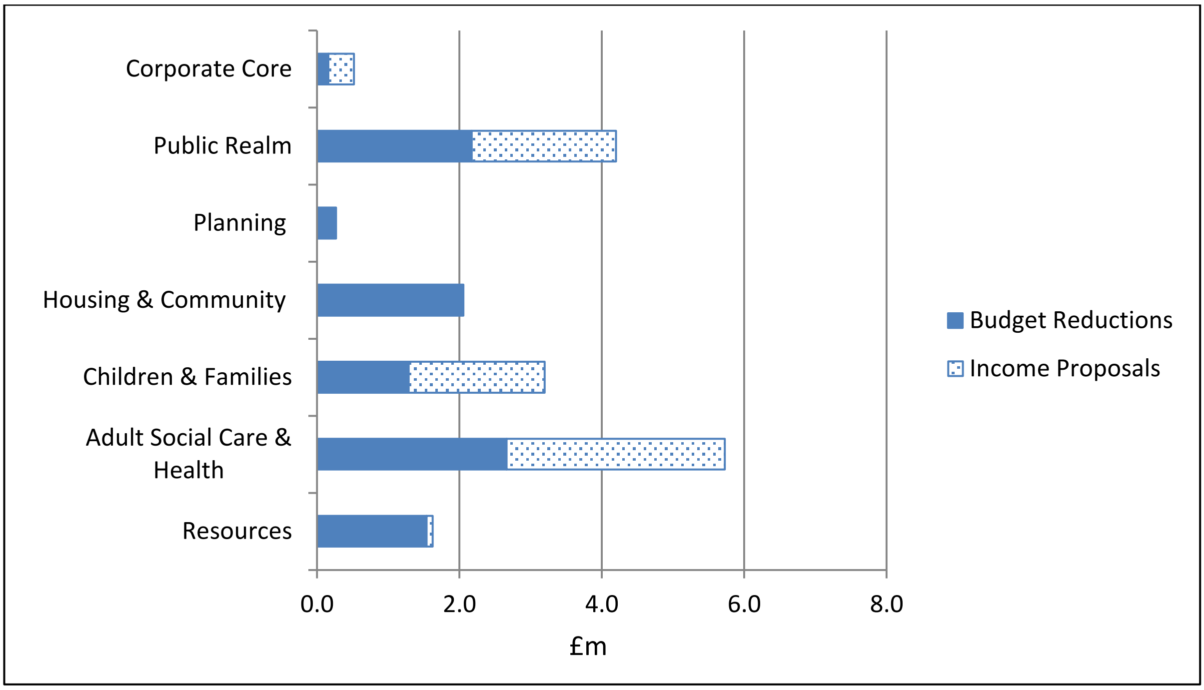
	£m
Technical Adjustments (largely parish funding)	(0.017)
Inflation	1.341
Corporate Pressures	1.078
Other ongoing Pressures	10.508
One-off Pressures	9.259
Funding Reduction	13.256
Total Pressures	**35.525**
Additional Income (Council Tax)	(3.948)
Adult Social Care 2% Council Tax Precept	(2.011)
Total Budget Reductions	(11.880)
Total Income Generation Proposals	(7.452)
Less One-off Funding (funding one-off pressures)	(9.259)
Net Ongoing Position	**0.875**
Funding used on one-off basis in 2016/17 Budget	**(0.875)**
	0.000

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

6.3 However, this strategy does recognise that those services, in particular - Housing, Adult Social Care and Health and Children's Social Care which support the most vulnerable people in Milton Keynes are also facing significant demand pressures, therefore these anticipated pressures are funded in draft Budget 2017/18 based on local trend data and demographic growth projections.

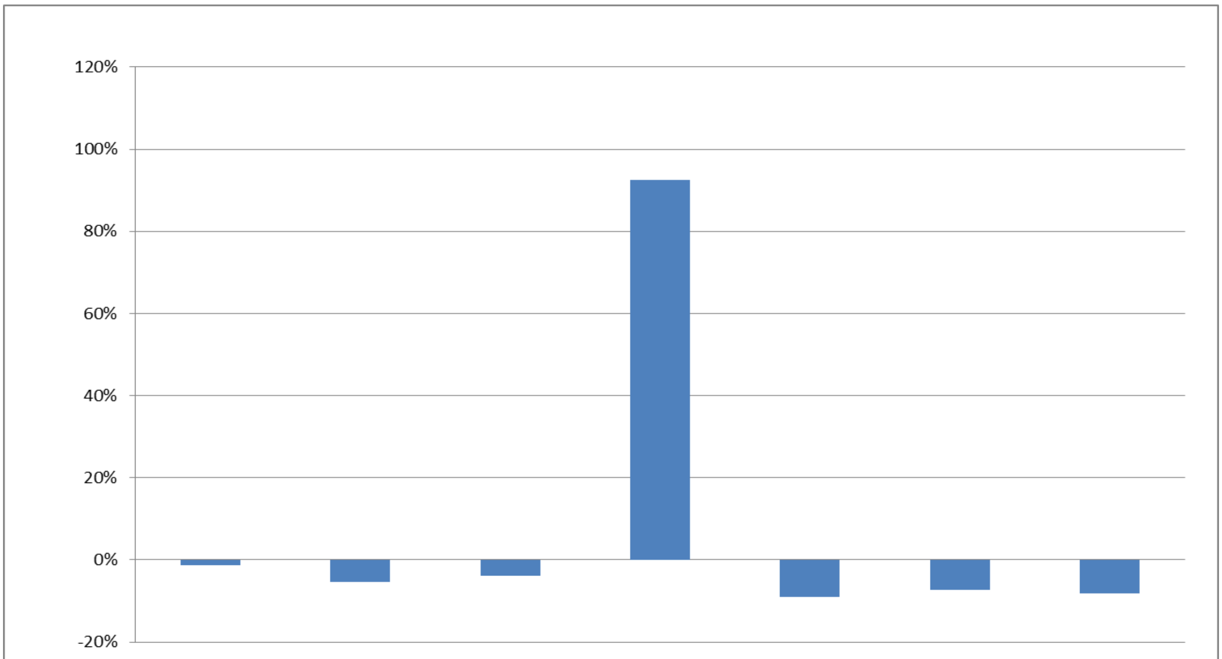
6.4 With this principle in mind, the savings in the draft Budget 2017/18 are not shared evenly across Service Groups. Notwithstanding, seeking to recognise the significant budget reductions to be found by the Council this year and in coming years, each and all of the Service Groups have been tasked with exploring new ways of working so as to drive efficiencies in how services are delivered in coming years and also to develop income generation opportunities. This is illustrated in chart one.

Chart 1: Service Groups Budget Reductions and Income Proposals 2017/18



6.5 Chart two illustrates how each Service Group's 2017/18 Budget has changed as a proportion of its 2016/17 Budget (including income proposals).

Chart 2: Service Groups Percentage Budget Change – 2017/18 compared to 2016/17



Net Budget	Resources	Adult Social Care	C&F	Housing	Planning	Public Realm	Corp Core
2016/17	£24.4m	£68.3m	£42.9m	£1.3m	£6.3m	£36.8m	£1.9m
2017/18	£24.1m	£64.6m	£41.2m	£2.4m	£5.7m	£34.1m	£1.8m

Note 1: Budgets include capital charges

6.6 Table 8 summarises the base budget position for the draft 2017/18 Revenue Budget. In addition to this base budget position, Service Groups will receive one-off budget pressures, as set out in annex B.

Table 8 – Summary of Ongoing Draft Revenue Base Budget 2017/18

	Adjusted Budget 2016/17	Inflation / Pressures	Budget Reductions & Income Proposals	2017/18 Budget
	£000	£000	£000	£000
SERVICES:				
Resources	**24,407**	**1,317**	**(1,627)**	**24,097**
Adult Social Care & Health	68,302	2,203	(5,915)	64,590
Children & Families	42,927	1,626	(3,327)	41,226
Total People	**111,229**	**3,829**	**(9,242)**	**105,816**
Housing & Community	1,253	3,215	(2,055)	2,413
Planning	6,250	61	(624)	5,687
Public Realm	36,823	1,523	(4,207)	34,139
Total Place	**44,326**	**4,899**	**(6,986)**	**42,239**
Corporate Core	**1,937**	**0**	**(157)**	**1,780**
Total	**181,899**	**9,945**	**(17,912)**	**173,932**
CORPORATE ITEMS				
Pay Inflation				1,391
Levies, Sustainability Items and Redundancy Costs				3,942
Debt Financing				16,263
Notional Capital Charges				(15,568)
Recharges to HRA				(1,434)
Parish Precepts Paid				6,575
Total Expenditure				**185,101**
FUNDING				
Revenue Support Grant				(17,406)
Retained Business Rates				(47,100)
Council Tax incl Parish Precepts				(108,695)
Education Services Grant				(700)
Specific Grant Funding Reductions				500
Public Health Grant				(11,700)
Total Funding				**(185,101)**

Note 1: Savings of £1.4m included within debt financing figure

7. PARKING ACCOUNT

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

7.2 As in previous years, the Council has estimated the likely income it will receive from car parking in 2017/18, the costs that are required to manage car parking, and has considered the need for additional car parking.

7.3 As a result of this process it has been identified that car parking is expected to generate a surplus in 2017/18, which will be transferred to the General Fund for use in accordance with section 55(d) of the Road Traffic Regulation Act 1984 to fund:

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

7.4 Annex H outlines the forecast parking surplus and the proposed use of this surplus as part of the draft Budget 2017/18.

8. CAPITAL PROGRAMME

Capital Resources

8.1 Table 10, shows the forecast resources available for the Medium Term Capital Programme. An explanation of the different capital financing streams and assumptions for the Medium Term Capital Programme is available in the Financial Sustainability Plan. However, the key assumptions for the financing of the Capital Programme are:

- Children and Families Basic Need capital financing is based on confirmed allocations from the Local Government Finance Settlement for 2017/18 and 2018/19 with a forecast for future years.
- Children and Families financing for School Condition Allocation is based on indicative allocations for 2017/18, whilst Adult Social Care funding has been assumed at 2016/17 levels.
- Transport funding is based on confirmed allocations until 2017/18 and advised indicative allocations for future years.
- Housing funding is based on an estimated contribution from revenue to capital based on affordability within the Housing Revenue Account.
- No tariff or developer contributions have been assumed, except where specified in individual project appraisals.
- £6.4m of 2016/17, and £2m of 2017/18 New Homes Bonus has been allocated and will fund projects such as V4 Crossings, Investment in LED lighting, A421improvements and enhancements required for the Future Working Project. The Autumn Statement outlined the value of New Homes Bonus paid to councils will be reduced by of £800m out of £950m nationally and there will be a change in the distribution formula. Milton Keynes have

had significant resources from NHB over the past 5 years (annual income, if the scheme had not been changed would be c£12.5m per annum) which have been used to fund infrastructure costs essential to the growth of the city. There has been no response to the Government consultation, further information is expected in the Autumn Statement.

- Housing Right to Buy Receipts – the Council has signed up to a DCLG scheme which will allow the previously pooled share of Right to Buy receipts to be retained by the Council, to make a 30% contribution to the costs of delivering new housing schemes. If resources are not spent in a three year time period the receipts will need to be returned along with interest of 4% above the base rate. The Medium Term Capital Programme assumes forecast receipts will be allocated to new build housing.
- Prudential borrowing is being used to finance the Highways and Infrastructure investment. The revenue costs of this borrowing will be met through the revenue budgets which have been developed as part of the sustainability items.

Table 9: Forecast Medium Term Capital Resources

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 Onward £m**
Capital Receipts	4.964	1.520	0.470	0.470	0.250
Developer Contributions	18.479	13.767	3.949	5.260	30.917
New Homes Bonus	8.449	2.993	0.510	0.000	2.711
Parking Reserve	0.050	0.050	0.050	0.000	0.000
Prudential Borrowing	16.738	14.796	7.183	2.298	4.999
Single Capital Pot	44.176	42.612	22.885	17.316	34.236
Grants	10.503	13.421	5.541	6.610	13.649
Revenue	19.045	9.541	9.541	9.541	0.000
Third Party Contributions	0.050	4.195	0.050	0.000	0.000
Major Repairs Reserve	15.647	9.780	9.780	9.780	9.780
Total	**138.101**	**112.675**	**59.959**	**51.275**	**86.762**

8.2 No scheme is included into the Medium Term Capital Programme unless it is fully funded. The 2021/22 onward figures reflect the resources required in future years to complete those schemes approved as part of this Medium Term Capital Programme, but no new schemes.

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

Capital Expenditure

8.4 The Medium Term Capital Programme was approved by February 2016 Council. New schemes included for 2017/18 have since been reviewed and scrutinised to identify uncommitted resources remaining which were then allocated to priority schemes.

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

8.6 The schemes marked as continuing, are those schemes which have commenced as part of previous years Capital Programmes. Expenditure in the year 2021/22 onwards column reflects the expenditure required to complete the schemes commenced in the Medium Term Capital Programme, but does not include any new starts.

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

- The Children and Families programme includes school expansions to increase the number of pupil places, the completion of a number of new schools already under construction and the building of 4 new primary schools and 3 secondary schools starting after 2017/18.
- The Council is continuing to fund the building of up to 200 new homes to address the increasing demand for affordable Housing.
- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.
- The Future Work Programme which will result in improvements to Council office accommodation; supports new ways of working and reduces the cost of Council accommodation.

Table 10: Forecast Medium Term Capital Expenditure

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 Onward £m
Education – Continuing Schemes	31.176	16.015	5.610	0.000	0.000
Education – New Starts	3.087	32.506	18.572	12.620	55.754
Transport – Continuing Schemes	6.168	8.687	2.605	0.910	4.480
Transport – New Starts	15.666	16.809	14.933	11.513	28.919
Social Care & Housing GF – Continuing Schemes	0.140	0.000	0.000	0.000	0.000
Housing HRA – Continuing Schemes	7.882	0.000	0.000	0.000	0.000

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 Onward £m
Social Care & Housing GF – New Schemes	1.501	0.921	0.871	0.871	0.871
Housing HRA – New Starts	30.658	19.541	19.541	19.541	0.000
EPCS – Continuing schemes	28.490	7.693	2.314	0.000	0.000
Strategic Pot– New Starts	6.207	5.095	5.127	4.447	0.540
TOTAL Expenditure	**130.975**	**107.267**	**69.573**	**49.902**	**90.564**

Summary of Capital Programme

8.8 Table 11 shows the Council's current capital expenditure needs can be met over the medium-term. The costs and funding of these projects will be refined as the capital programme is developed for future years. The detailed draft Capital Programme is available at annex I.

8.9 However, it should be noted that a Multi-Modal study of the road network is currently being completed to identify where additional investment is required and work is currently being completed on options to update the Waste Strategy, which could result in short-term investment requirements. It is therefore likely the Council will need to maximise returns from assets over the medium term to meet capital requirements, or to contribute (under new legislation) to the transformation costs of the Council.

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

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 Onward £m
Capital Resources	138.101	112.675	59.959	51.275	86.762
Capital Expenditure	130.975	107.267	69.573	49.902	90.564
Net Position (surplus) / deficit	**(7.125)**	**(5.409)**	**9.614**	**(1.373)**	**3.802**
Cumulative Position (surplus) / deficit	(7.125)	(12.534)	(2.920)	(4.293)	(0.491)

9. OTHER FUNDING

S106 Funding

9.1 S106 funding is a key resource in supporting the Council to mitigate the impact of growth. The use of S106 funding must be managed carefully to address both local and strategic needs. Developer Contributions (S106) are included in the

Capital Programme or to fund projects which meet the specification outlined in the S106 agreement.

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

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

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

9.5 A total of £28.4m of S106 funding has been allocated within the Capital Programme which includes £9.660m in 2016/17, £2.579m within 2017/18 with a remaining £2.836m of funding up to the period 2020, of which £1.4m is yet to be received.

9.6 A further £8.47m has been earmarked to projects. These include projects that are being initiated but do not yet have capital approval, parish and town council projects and other revenue projects awaiting approval.

9.7 The remaining balance of £12.89m is yet to be committed, however all of the funding is notionally ring-fenced to approximately 325 individual S106 contributions, covering over 325 individual projects.

Tariff

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

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

9.10 Annex J shows a breakdown of the Tariff resource allocation for 2017/18 and indicative allocation for the next four years, both for projects to be delivered by the Council and those managed by other areas of the community.

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

Dedicated Schools Grant

9.12 The Dedicated Schools Grant (DSG) supports individual schools and academies and other pupil related expenditure within the People Directorate. The School and Early Years Finance Regulations 2016 will define the services that can be supported by the DSG. These regulations will be consulted on later this year. The DSG is allocated based on pupil numbers on the role of both schools and academies, although academies receive their actual funding direct from the Education Funding Agency (EFA).

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

- The schools block is calculated based on the number of pupils on roll at a specific census date in October 2016.
- The early years block is calculated based on the number of early years pupils on roll at specific census dates in January 2017 and January 2018 and will not be confirmed until after the end of the financial year, so budget allocations to providers will be based on forecasts and adjusted once the actual figures are known.
- A rebase-lining exercise took place in the summer to realign expenditure between the blocks, so that the high needs block is now based on 2015/16 budgeted expenditure. The EFA have indicated that there will be an uplift applied, although we await the details of this.

9.14 In 2017/18 the DSG Schools Block has been increased by £0.67m to reflect movement of retained duties Education Services Grant (ESG) funding into the DSG. Further detail of the split of former ESG duties to be included under this arrangement will be included in the DfE’s consultation on The School and Early Years Finance Regulations expected later this year.

9.15 In 2017/18 the High Needs Block has been increased by £0.67m for transfer of funding from post 16 budget. It is assumed that this will be recouped by the DfE to pay for the current placements, so is anticipated to be a nil financial impact in the short-term.

9.16 In September 2017 the 15 hours free childcare entitlement will increase to 30 hours free for working families. The government have announced that nationally funding will be increased by £300m pa to increase the national average hourly rate paid to providers to £4.88. Indicative figures have been received; these will be confirmed in mid-December. The figures in the table below do not include either the income or the expenditure for the increased take up from 15 hours to 30 hours, although these should have a net nil impact on the DSG.

9.17 The DfE conducted a consultation of the national funding formula during spring 2016, the results of which are due to be published in the autumn along with phase 2 of the consultation. It is anticipated that a national funding formula will be implemented in April 2018, making future year estimates difficult. Our estimated DSG for 2018/19 is calculated by using current unit costs and projected pupil population data and assuming that a national formula is not implemented.

9.18 The figures presented below are based on the October 2016 census date where this is known. The actual pupil data will be confirmed by the DfE in mid-December. A summary of Milton Keynes Council’s estimated DSG for 2017/18 and 2018/19 is set out in Table 12:

Table 12: Forecast Dedicated Schools Grant for 2017/18 to 2018/19

DSG Income / Expenditure	2017/18 £m	*2018/19 £m*
Schools Block	(181.902)	*(184.647)*
Early Years Block	(17.813)	*(18.199)*
High Needs Block	(29.535)	*(29.535)*
Total Income	**(229.250)**	***(232.381)***
Individual School Budgets	173.976	*176.464*
Central Spend – LA	1.100	*1.100*
Central Spend – Schools	1.598	*0.977*
Early Years Block	17.813	*18.199*
High Needs Block	33.751	*35.575*
Total Expenditure	**228.239**	***232.315***
In Year Total	**(1.012)**	***(0.066)***
Estimated Balance B/fwd	1.051	*0.039*
Estimated Balance C/fwd	0.039	*(0.027)*

9.19 As Milton Keynes continues to expand, the Council needs to provide a significant number of additional school places. This poses a considerable challenge, as the cost of these additional school places is not immediately reflected in the DSG, due to the delayed manner in how it is calculated by the national Government.

9.20 There is a forecast deficit on the DSG of £1.051m in 2016/17. Given the likely implementation of a national funding formula in April 2018 it is essential to minimise this deficit position.

9.21 There continues to be pressures on the DSG relating to an increase in the number and complexity of need of children being placed in special schools and a general increase in school places required. In order to meet these pressures it has been necessary to reduce all of the formula factors by 1.5% in the primary and secondary sectors. Although schools are still protected by the minimum funding guarantee which protects schools to a maximum of a 1.5% reduction per pupil.

10. BUDGET CONSULTATION

10.1 Consultation on the proposals outlined in this draft budget will begin on 6 December and continue until 31 January. The consultation will be publicised through a series of Budget Roadshows throughout the borough, on the Council website and social media channels, through local media advertising, and other means.

10.2 The responses to the consultation will be evaluated to inform the final Budget decisions to be taken in February 2017.

11. ROBUSTNESS AND RISKS

11.1 1.2 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.'

11.2 1.3 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.

11.3 In preparing the Budget for 2017/18, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report or the FSP report included within this agenda. Where the impact is not known this has been highlighted as a risk.

11.4 The 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.

11.5 A Budget Risk Register is included in annex K, 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 D.

11.6 However, at this time there are three areas which are the most likely to affect the final assessment of adequacy:

- Residual Waste Treatment Facility – at present the Budget reflects the planned opening of the plant on 1st May 2017. There have been assurances for delivery to this date; however, the initial testing of the Advanced Thermal Treatment element of the plant will not take place until January. This will give the best indication as to the certainty of the opening date. At present, the General Fund Balance is the only means of mitigating any further delay. The assurance on the programme gives confidence for the adequacy of reserves, however this will be reviewed before the Final Budget.

- The projections for continued growth in the demand for temporary accommodation are based on the trends over the last three years. However, the demand is uncertain as the position has changed substantially over this period. The demand led reserve provides some protection against additional demand. Again this area will be reviewed before the Budget is proposed in February.

- Business Rates, at present the earmarked reserve to mitigate against Business Rate fluctuations is £1.2m. Over the last four years the Business Rate Retention scheme has seen considerable fluctuations of between £6m benefit to £5m loss. The draft Budget has reviewed the growth assessments in the scheme and has reduced the growth expectation to reset the baseline. However, this area remains a risk.

11.7 In light of these three specific issues, any available one-off resources arising after this draft Budget will be focused on mitigating the financial impact in these areas. Albeit recognising the need to mitigate the risk of the Residual Waste Treatment Facility is only a short term issue.

11.8 In the medium term the financial strategy to achieve financial sustainability requires the Council to develop more innovative solutions and to consider its risk appetite to create greater financial benefits. The reducing size and increasing complexity to deliver these benefits also means there will be less ability to manage risk in year. The likelihood is the General Fund Balance will need to increase over the medium term aligned to the changes in target operating model and reflecting the difficulty of delivery further budget reductions and income.

11.9 The General Fund Balance of £7m and additional allocation of £3m to offset unexpected risks and the risk assessment of the timing, delivery and implementation of savings proposals is estimated to be adequate to meet the Council's financial needs in 2017/18.

11.10 This view takes account of the reserves included in the Council's latest audited Accounts as at 31 March 2016; 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 2017/18.

12. HOUSING REVENUE ACCOUNT

12.1 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.

12.2 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. The subsequent income and expenditure of the HRA could therefore be based on local rather than national decisions, and reflect investment needs informed by Asset Management Plans, e.g., the Council's regeneration programme.

HRA Planning Assumptions

12.3 The draft HRA Budget for 2017/18 has been prepared on the basis of the corporate planning assumptions. In addition the following planning assumptions specific to the HRA have been made:

Income

a) Dwelling Rents

12.4 The self-financing regime enabled councils to set council rents, according to the assessment of the need for spending on the management and maintenance of its housing stock, and other items within the HRA, constrained only by Housing Benefit limits. The Council has been able to choose to what extent (if any) to follow government rent-setting guidance. However, the £170m of additional debt assumed that rent would continue to be set in line with the government's Rent Restructuring policy, including increases at RPI + ½%.

12.5 The Government announced in May 2014 a new policy that social rents should instead increase by CPI + 1% for the ten years from 2015/16 to 2024/25, with no further restructuring.

12.6 The Government has since incorporated into the Welfare Reform and Work Act a reduction in social housing rents of 1% per year for the four years commencing April 2016. This measure will reduce rent income for the next three years, with the impact being compounded each year.

12.7 Rent increases complying with the 1% cut will continue to decrease income for the HRA in 2017/18. Based on a rent cut of 1% in 2017/18, average rent would decrease to £87.88 per week, an average decrease of £0.89 per week.

12.8 The 2017/18 rent decrease for shared owners will be 1.00%; this is contractual, based on last year's Council housing rent decrease. This would mean an average rent of £84.45 per week (a decrease of £0.85 per week) although this figure varies with the share owned by the tenant.

12.9 The rent decreases will reduce HRA income by £0.536m in 2017/18. A further reduction of £0.132m will result from the closure of the Orchard House sheltered scheme. These reductions will be offset by £0.153m additional income from new Council housing.

12.10 The national welfare reform changes are currently a risk to some of the income in the HRA. Under the current arrangements the rent for those people in receipt of Housing Benefit is paid directly to the Council, under the Government plans for welfare reform this money will increasingly be paid directly to the resident as part of Universal Credit, now being rolled out in Milton Keynes, for them to make rent payments. This means income which was previously guaranteed to the HRA may now not be collected. In addition the general reduction in benefits through welfare reform (including the "bedroom tax") reduces the income available to some tenants, which increases the risk of non-payment. Actions to mitigate these risks are set out in Annex O.

12.11 Due to these increased risks in relation to income collection, the budgeted level of collection for all rental income from 2013/14 onwards was reduced from 93% to 92%. This has been reviewed (against the October 2016 performance of 92.79%) and it remains prudent to assume a level of 92% for 2017/18. However, all debts will continue to be rigorously pursued through prompt, proactive and robust processing by a specialised Housing Team. Income collection remains a priority and is demonstrated by the 2015/16 year end BVPI66a collection rate (covering rent income only) of 98.00%.

12.12 Other risks arising from the Housing & Planning Act ("Pay To Stay" and sale of "Higher Value Voids") are not expected to have a material impact before implementation in April 2017, other than a potential increase in Right To Buy sales as set out below.

b) Right to Buy sales

12.13 The Government made changes to the Right to Buy (RTB) scheme effective from April 2012 through an increase in the discount available, intended to increase the number of RTB sales. The draft budget provides for 83 RTB sales in 2017/18, based on current year activity and an anticipated increase due to "Pay To Stay", which reduces the rent income expected by £0.311m.

c) Garage Rents

12.14 Following investigation of other local authorities' garage rents, and consideration of the marketability of housing garages in Milton Keynes, it is recommended that there be no increase or decrease in 2017/18.

d) Leaseholders' Service Charges & Major Works Recharges

12.15 Leaseholders' service charges are estimated in line with costs of providing the service. Recovery of costs for major works in respect of leaseholders is also assumed.

e) Tenants' Service Charges

12.16 General Needs tenants' service charges were reviewed in 2016/17, and are expected to move closer to covering the costs of providing the various services as the product of the 1% rent cut is applied to capped increases.

12.17 Sheltered Housing tenants' service charges have been reviewed for 2017/18, and will be aligned to covering the costs of providing the various services, subject to a cap equivalent to the product of the 1% rent cut being applied to increases. These service charge increases (including some decreases) are being consulted upon through the Residents' Involvement Group and directly with Sheltered Housing tenants.

Expenditure

f) Repairs and Maintenance

12.18 Revenue savings of £1.310m are expected, as a result of gas maintenance work being undertaken through the regeneration partnership rather than through a separate contract.

g) General Management, Special Services & Other Property Costs

12.19 Review of the cost allocation of Sheltered Housing Officers has led to a £0.185m greater cost to the HRA, reflecting the proportion of housing duties undertaken.

12.20 Revenue savings of £0.243m are expected from increased efficiencies in General Management and support services.

h) Interest & repayment of borrowing

12.21 Interest charges are expected to decrease by £1.125m in line with the council's overall cost of borrowing as a result of capital financing and Treasury Management operations and increased interest earned on HRA balances.

i) Funding for Capital Investment

12.22 The HRA is charged with depreciation each year, which reflects the cost of wear and tear on HRA assets (principally the housing stock). The depreciation charge is paid into the Major Repairs Reserve, which finances the costs of major repairs.

12.23 The Council also makes further contributions from the HRA toward the costs of capital improvements, based upon an Asset Management Plan which assesses the costs of maintaining and renewing all the building elements within the housing stock, and of the regeneration programme, which will be refreshed and updated by the Regeneration Partner. The contribution is expected to increase by £2.527m, which is the gas maintenance saving plus the surplus in the HRA after maintaining a prudent level of balances, from £11.985m to £14.512m.

j) Contribution to Earmarked Reserves

12.24 When reviewing the potential financial risks to the HRA a number of issues have been identified, where it would be prudent to provide a reserve for adverse positions. It is therefore recommended that annual contributions of £0.6m continue to be made to specific reserves as follows:

Table 13: Contributions to Earmarked HRA Reserves

Reserve	Reason	Contribution £m
Debt Refinancing Reserve	To phase the costs of any significant increases in debt financing costs.	0.100
Major Project Costs	To provide for major variations in the costs of capital schemes, as additional borrowing cannot be undertaken.	0.500
Total Annual Contributions to Earmarked Reserves		**0.600**

Summary of the draft HRA Budget

12.25 Table 14 shows the summary draft 2017/18 budget for the HRA. The draft 2017/18 HRA Budget is compared to the 2016/17 Budget in annex L.

Table 14: Summary of the draft HRA Budget

Item	2017/18 £m
Income:	
Dwelling rents	(52.846)
Other income	(2.929)
Total income	**(55.775)**
Expenditure:	
Repairs and maintenance	9.468
General Management & Special Services	8.776
Interest and repayment of borrowing	8.640
Funding for future capital repairs (depreciation charge)	12.973
Funding for future capital improvement works (RCCO)	14.512
Contribution to Earmarked Reserves	0.600
Other expenditure	0.808
Total Expenditure	**55.775**
Net budget for the year	**0**
Forecast Reserve Balance - brought forward from 2016/17	*4.569*
Forecast Reserve Balance - carried forward to 2018/19	*4.569*

12.26 The minimum level of prudent HRA reserve to cover unforeseen adverse circumstances has been assessed at £4.5m. The reserve level at the end of 2017/18 is forecast to be £4.6m which is in line with maintaining this minimum level. The medium term projection in annex N indicates that HRA reserves will remain at this level for the medium term planning period, although both earmarked reserves and balances will need to be reviewed in light of the regeneration programme.

13. RELATED DECISIONS

13.1 Related decisions include:

- The Financial Sustainability Plan 2017/18 to 2020/21, approved by Cabinet, elsewhere on this agenda.
- Council Tax Base and Business Rates Baseline 2017/18 report, approved by Cabinet in November 2016.

14. BACKGROUND

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

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

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

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

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

15. ANNEXES

15.1 The following annexes are appended to this report:

2017/18 Budget Pressures	Annex A
2017/18 One-off Budget Pressures	Annex B
2017/18 Budget Reductions and Income	Annex C1 and C2
Reserves Assessment	Annex D
Recharges Methodology	Annex E
Fees and Charges: Exemptions to the Income Policy Additional Concessions	Annex F
Charging for Commercial Services	Annex G

2017/18 Draft Parking Account	Annex H
Draft Medium Term Capital Programme	Annex I
Draft Tariff Resource Allocation	Annex J
2017/18 Draft Budget Risk Register	Annex K
HRA compared to the 2016/17 Budget	Annex L
HRA Budget Pressures and Savings	Annex M
HRA Budget and Medium Term Forecast	Annex N
HRA Budget Risks	Annex O
Legal Framework	Annex P

16. IMPLICATIONS

Policy

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

Resources and Risk

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

16.2 A detailed budget risk register is available at annex K to this report.

Carbon and Energy Management

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

Legal

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

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

Other Implications

An Equality Impact Assessment was conducted on all 144 reductions and income proposals (annex C1 & C2) of which 17 were considered as being 'significant' and 'relevant' to equality. Similar decisions have been brought together to produce 10 in-depth assessments. Full details can be found at http://bit.ly/MKCEqIA-Bud17b

16.6 These assessments recommend that:

- In six (6) green areas (five in the budget reductions annex and one in the income annex) it is recommended to continue, as there is potential to improve the advancement equality of opportunity.
- In four (4) green-amber areas, adjustments have been/are made to remove barriers or better promote equality. Adjustments are identified below.
- There are no (0) amber area, which are budget reductions or income options that are continuing, despite having identified some potential for an adverse impact or a possible missed opportunity to promote equality.
- There are no (0) red areas, it is recommended that savings not continue, as there is a potential for unlawful discrimination.

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

Table 15: Summary of adjustments being made

Area of Work	Adjustment Made/Being Made
ASC standardise personal budgets across community and residential care	There may be an impact on a number of existing service users. Where there is an adverse impact individuals will receive advice and support. All circumstances will be individually assessed and any change carefully managed. This decision could remove the potential for indirect discrimination.
Review and Retender a Mental Health contract	Health services are constantly reviewing the needs of patients they support, moving them from health care to social care. The role of mental health services is to manage this flow and to ensure clients continue to move towards independence. Milton Keynes Council has a block contract with a number of providers. Within these contracts, the level of support varies from low to relative complex support. The service will focus on those clients with more complex needs.
Learning Disability Review	Better focus of services will promote independent living. The focus of the short breaks service will be the needs of people with challenging behaviour and profound and multiple disabilities. The focus of the day opportunities service will be the needs of people with challenging behaviour and profound and multiple disabilities rather than the current wider offer.
Reduction in Public Realm costs	A reduction in landscaping might lead to a reduction in accessibility. Where a pathway or access is blocked, the solution will be to remove the barrier rather than continue landscaping.

16.8 There will not be a significant reduction in the workforce (under 20 FTE), with reductions offset to some extent by additional posts to meet the challenges of sustainability and demography.

16.9 Of the 52 pressures, 37 pressures may advance equality of opportunity. These include:

- increases in direct payment, in particular to match living wage and pension duties
- measures to meet increases in demand due to sizeable changes in demography - the Council has to ensure that services are based on statutory eligible needs and that people's needs are regularly reviewed
- activities that meet the needs of the most vulnerable people with disabilities, children and older people
- Forecast increases in the demand for temporary accommodation of 10% per year

16.10 The 2017/18 draft Budget is focused on meeting the challenges of rising homelessness, of increases in the number of vulnerable people, and of maintaining independence for the elderly. Faced with increases in demand, a focus in the budget on these issues has been essential.

Background Papers

Budget Scrutiny Committee papers.