Cabinet report

milton keynes council

7 September 2021

MEDIUM TERM FINANCIAL OUTLOOK [2022/23 TO 2025/26]

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Exempt / confidential / not for publication	**No**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

Executive Summary

Milton Keynes Council's Medium Term Financial Plan (MTFP) was updated in February 2021, at which time the forecast budget gap over the subsequent three-year period was £14.935m. At the point this forecast was constructed, the UK had entered its third lockdown and government was providing significant levels of financial support to the UK economy.

Local Government had just received for the third successive year a single year financial settlement, with proposed government reforms to local government finance and social care being deferred.

Given this backdrop the MTFP Forecast beyond 2021/22 was and continues to be subject to significant uncertainty.

This Medium Term Financial Outlook (MTFO) sets out our best view of the scale of the financial challenges that we face over the coming years, core assumptions and, more importantly the Council's approach to balancing the recovery, protecting services for the most vulnerable residents in our borough, whilst delivering a balanced budget for 2022/23 and putting in measures for the medium term.

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

1. Decision/s to be made

1.1 That the financial forecast set out in Table 6, in relation to both resources and expenditure, be noted.

1.2 That the approach proposed to setting a balanced budget for 2022/23 and steps to support the budget in future years as set out in paras 3.33 to 3.39, is agreed.

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

2. Why is the decision needed?

2.1 The purpose of this report is to:

- Update Cabinet on the key issues for the Councils finances over the medium-term period between 2022/23 to 2025/26.
- To set out our approach and to addressing the financial challenges over the medium term and managing short term uncertainty and balancing this against the need to secure the recovery from COVID-19.

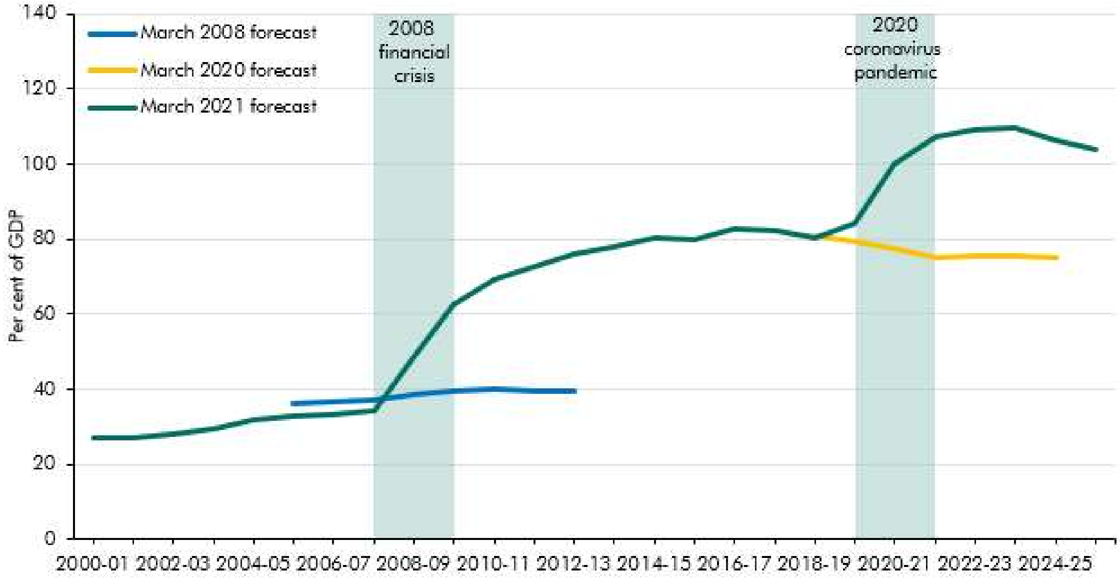
2.2 The Council has a clear ambition as set out in the Council Plan and has made a commitment to continue to grow and enhance Milton Keynes through the MK Futures programme. These commitments are alongside the continued financial challenges for the Council.

3. Background

COVID -19 National Picture – Impact on Economy

3.1 The COVID-19 pandemic has delivered the largest economic shock to the UK for 3 centuries and the pandemic is still far from over. The Office for Budget Responsibility (OBR) published its latest Fiscal Risks Report on public finances in July 2021. Using Gross Domestic Product (GDP) as a measure of the health of the economy the report states that GDP fell by 9.8% in 2020. The subsequent economic recession resulted in unprecedented peace time government borrowing of over £300bn, with public sector net debt rising to over 100% of GDP.

Chart 1: Public Sector Net Debt in the UK



Source: ONS, OBR

3.2 The budget deficit has been driven mainly by increased spending rather than lower tax receipts. The OBR estimates that the UK pandemic rescue package will cost 16.2% of GDP over 2020/21 and 2021/22. As the government unwinds its COVID-19 support borrowing is forecast to drop significantly over the medium term.

3.3 In terms of inflation, when the budget was set in February it was expected that the Consumer Price Index (CPI) would be at the government's 2% target over the medium term. The CPI has been rising over the short term and in July was 2.0%. The OBR is now modelling two scenarios, one where CPI rises to 4% over 3 years and remains at that rate and a second where CPI rises sharply in 2022/23 to be at 5% by 2023/24 and then returns back to the Government's target over 4 years. Higher inflation could have an impact on our contractual costs.

National Picture – Support for Local Government

3.4 In 2020-21 the Government provided £9.4bn of emergency financial support to local authorities through the Local Support Grant and other specific funding to address pressures caused by COVID-19, with a further £3.3bn allocated in 2021/22. Milton Keynes share of this funding is detailed in Table 1.

Table 1 – Covid-19 Local Authority Funding

	2020/21 Local Support Grant £m	2020/21 Other Specific Funding £m	2020/21 Total Funding £m	2021/22 Local Support Grant £m	2021/22 Other Specific Funding £m	2021/22 Total Funding £m
England	4,607.00	4,776.76	9,383.76	1,550.00	1,779.38	3,329.38
Milton Keynes	20.73	22.52	43.25	7.06	7.69	14.75

3.5 The Local Support Grant has been informed by the monthly data returns submitted to the Ministry for Housing and Local Government (MHCLG) on the financial impact of COVID-19.

3.6 In addition to the direct support that the Government has provided to Councils, a wider package of support has been given to support business through business rates reliefs and grants, together with sector specific packages for care providers and bus companies.

3.7 A recent paper by the Institute for Fiscal Studies has suggested that overall government support has largely met local authority pandemic-related pressures in 2020−21 and would also likely be sufficient to meet the pressures in 2021−22[1]. However, there are no current plans for any further support into 2022/23 and beyond which is a significant financial risk. The government measures have mitigated some of the economic harm and protected jobs and incomes so any cessation could have a material impact on certain aspects of the Councils budget.

3.8 In his March 2021 budget, the Chancellor announced that public sector spending is set to rise by 2.1% per year in real terms over the next four years. However, these increases have already been allocated to the NHS, schools and defence so for those "unprotected areas" such as Local Government a real terms cut in funding is a distinct possibility.

Other Key Issues

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

- No government funding settlement beyond 2021/22.
- The future of the Fair Funding Review and Business Rates is unknown.
- The volatility of Business Rate income and the relatively small proportion retained locally, which does not offset demand increases.

[1] Ogden, K. and Phillips, D. (2021), 'The government has addressed most of the short-term COVID-19 financial pressures facing English councils, but problems loom in 2022–23 and beyond', https://ifs.org.uk/publications/15371.

- The Councils budget in key areas of demand is not clear and there remains significant questions about future changes, timing and scale, in particular for adult and children's social care.
- Continuing financial pressures arising from homelessness and the costs of temporary housing.
- The impact of real inflation on public services which exceeds the government measure of CPI.
- Reduced income through lower economic activity, behaviour change and increase risks on debt collection.

Medium Term Financial Outlook

3.10 The current Medium Term Financial Plan (MTFP) was set in February 2021 and reflected our best estimate at the time of the impact of the COVID-19 pandemic. It is still too early to know how strong a recovery from COVID-19 we will have and what the timescale for any recovery will be. In light of this continued uncertainty, we have not completed a full refresh of the MTFP at this time.

3.11 A number of corporate planning assumptions have been reviewed and are detailed in Table 2.

Table 2 - MTFP Update

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
MTFP – Feb 21	3.415	10.202	1.318	2.957
Changes:				
Pay Award	1.474	0.074	0.075	0.031
VMRP	(0.300)	0.000	0.000	0.000
HRA Borrowing	(0.700)	(0.700)	0.000	0.000
CTAX Base	(1.919)	0.166	0.485	(0.303)
Casino License	0.375	0.000	(0.375)	0.000
Casino – Vulnerable Gamblers	0.160	(0.020)	(0.140)	0.000
PH – Reserve	(0.160)	0.020	0.140	0.000
Unidentified Pressures	(1.500)	(1.500)	(1.500)	(1.500)
Waste Insurance	0.200	0.000	0.000	0.000
Waste Contract - weekly collections	0.000	1.400	0.000	0.000
Waste – removal of sacks	0.000	(0.500)	0.000	0.000
ICT Microsoft	0.100	0.000	0.000	0.000
MRF Rent	0.000	0.700	0.000	0.000
Waste - recyclates	0.000	0.150	0.000	0.000
Parking Income	(1.200)	0.000	0.000	0.000
Contingency	0.000	(0.850)	0.000	0.000
Management Action Plan	(1.000)	0.000	0.000	0.000
MTFP September 21	**(1.055)**	**9.142**	**0.003**	**1.185**

3.12 Key changes are detailed below:

a) **Pay award** - National Employers have offered 1.75% for 2021/22. In the 2021/22 budget we only made a provision for a pay award for staff earning less than £24k, following the steer from government for a public sector pay freeze. The estimated £1.5m cost for 2021/22 could be funded from the contingency provision but there would also be an incremental pressure on the 22/23 base budget.

b) **Casino** – one-off pressure of £0.375m added to reflect temporary license variation due to be considered by the Licensing Committee.

c) **Waste** – an additional pressure of £1.950m has been included in the refreshed MTFP, the majority (£1.750m) in 2023/24. This includes,

   i) **Waste Contract** –estimated revenue pressure for the new contract from April 2023 of £1.400m. We have assumed that we will continue with weekly collection in line with political expectations and that the investment in wheeled bins will be funded by capital receipts but that the vehicles will remain included in the contract revenue cost. A saving of £0.500m has also been included for no longer supplying rubbish sacks. These assumptions will be reviewed for the Draft Budget.

   ii) **Waste Recyclates** – estimated £0.150m pressure from 2023/24 for increased operating costs for processing recyclate material. The assumption is that the costs to refurbish the MRF as part of this project will be funded by capital receipts.

   iii) **Materials Recycling Facility (MRF**) - £0.700m income pressure as this income stream will end as the existing contract ends.

The procurement process for the new waste contract is in its early stages as is the modelling for the refurbished MRF. As such, the pressures for the waste contract are the subject to further external financial modelling and subject to competitive dialogue.

d) **Unidentified Pressures** – removal of the £1.5m per annum allowance already included in the base MTFP.

e) **Council Tax Base** - The 2020/21 base was stronger than predicted and we are currently taking the view that the 2022/23 base will be potentially higher by an estimated £1.9m than previously thought. This reflects a combination of stronger property growth, a small increase in CTRS costs than we had anticipated (extension of furlough) and better debt collection performance.

f) **HRA Borrowing** – We have assumed that the HRA will borrow £80m in 2022/23 from the GF at 2%, the net interest benefit to the GF in 2022/23 and 2023/24 is £1.4m split equally.

g) **Fees and Charges** – We have reviewed the key income lines in the budget and based on recent activity increased the budget for parking income by £1.2m based on the 2021/22 forecast.

h) **Management Action Plan** – CLT have reviewed this and increased the plan savings by a further £1m in 2022/23 to support the overall delivery of a balanced budget.

i) **Contingency** – the base budget provision of £0.850m has been removed from 2023/24.

3.13 Demand management and demography pressures will be refreshed nearer to setting the Draft Budget when we have the latest data. We have extended the MTFP by a further year to 2025/26 using the same base assumptions in the current MTFP.

3.14 The combination of these changes and increased savings through the Management Action Plan mean that we are currently forecasting a surplus of **£1.055m** in 2022/23 and a slightly reduced deficit in future years compared with the last published forecast.

3.15 At the time we set the current MTFP forecast we made a series of prudent assumptions around income. We removed £9.5m of income budgets in 2021/22 and have reinstated £1.5m in 2022/23, leaving an income pressure of £8m as detailed in Table 3. These will be reviewed in the coming months ahead of the draft budget but if the UK continues to avoid further lockdown measures then it is likely that the level of income will recover above the levels in this forecast.

Table 3 – Income Budgets

	2020/21 Budget £m	2021/22 Pressure £m	2021/22 Budget £m	2022/23 Recovery £m	2022/23 Budget £m
Car Parking	(13.835)	8.461	(5.374)	(1.200)	(6.574)
Planning	(2.498)	0.674	(1.824)	(0.337)	(2.161)
Other	(1.520)	0.349	(1.171)	0.000	(1.171)
Total	**(17.853)**	**9.484**	**(8.369)**	**(1.537)**	**(9.906)**

3.16 A summary of the updated MTFP is set out at Annex A.

Risks

3.17 In addition to the changes to the MTFP detailed above there are a number of other risk areas which will be considered for the draft budget; however it will be important to manage and mitigate these potential pressures, in order to be able to maintain the budget approach outlined earlier in the report. Failure to do so, will mean we will need to identify corresponding savings.

a) **Waste** – we have continued to see an increase in tonnages in April and May 2021 which if sustained, would result in an additional pressure in the MTFP of c£0.300m. However, we need to assess the ongoing impact of the reduction in Covid restrictions and changing behaviour (employees returning to offices etc.) and continue to review data in this area to inform the budget.

b) **Homelessness** – we agreed a significant multi-year invest to save plan as part of the 2021/22 budget but delays in recruitment and imbedding of new processes and practices, together with a delay in the Modular housing scheme, may result in slippage to the invest to save programme and create a temporary pressure in the budget.

c) **Adult Social Care –** there are a number of pressures emerging in year from loss of client contribution income coupled with an increase in bad debt provision allowances. We are also seeing pressures from transitions (above those budgeted for) and the care home sector remains volatile given the number of unoccupied beds, which could affect the cost of care placements. The care sector (care homes and community providers) have received £6.9m so far of Covid related funding support from the government, but this is expected to end after the last tranche in September 2021.

d) **Children's placements –** are currently tracking within budget but we are seeing an increasing demand for external placements given the lack of in-house foster carers. There is also a significant national issue regarding Unaccompanied Asylum Seeker Children and other LAs may be directed to place some of these children, which would result in a budget pressure given our own existing pressures regarding availability of placements.

e) **Contractual inflation** – the inflation forecast of 4% detailed in paragraph 3.2 has implications for the indexation provision for our contracts. If the inflation on our major contracts increased by 1% this would add a pressure of £0.8m to the MTFP.

Government Funding

3.18 At the time of setting the budget and MTFP in February 2021 the level of government funding beyond 2021/22 was uncertain and a significant risk to our longer-term planning. Several planned reforms have been postponed further due to the COVID-19 pandemic:

- Fair Funding Review delayed to at least 2023/24
- Move to 75% Business Rates Retention delayed beyond 2022/23
- Revaluation of Business Rates postponed to April 2023

3.19 The Chancellor of the Exchequer was expected to launch his Comprehensive Spending Review (CSR) into public spending in July but this has been delayed until September. The review should set the Government departments' resource budgets for the years 2022/23 to 2024/25 and capital budgets for the years 2022/23 until 2025/26. This delay will likely mean a November announcement rather than October.

3.20 The much anticipated announcement of the funding review for social care has also been delayed again from July until at least September. Andrew Dilnot, who led the last significant review into the funding of social care over 10 years ago, has estimated that the cost of fully funding social care would be an additional £10bn[2]. It has been suggested that a 1% increase in national insurance contributions from both employers and employees would raise this funding but there have been strong opinions against this and it is not confirmed at this time.

3.21 Together with continued uncertainty associated with social care funding streams such as the Better Care Fund and Improved Better Care Fund, the future of other significant grants including Public Health Grant and New Homes Bonus is also unclear.

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

3.23 At this stage we have not therefore revised our government funding assumptions, which remain as follows:

- Core Grant (RSG / Business Rates) increased annually by CPI at 2%.
- New Homes Bonus – assumed there is no new funding allocation.
- BCF /iBCF – in line with the 2021/22 allocation
- Social Care Grant – in line with the 2021/22 allocation
- Public Health Grant – assumed this is frozen over the life of the MTFP.

3.24 At this point we are assuming that the business rates reset will take place in 2022/23. No assumptions have been made about the introduction of the Fair Funding Review or impact from any Social Care reforms.

[2] Today Programme, 21.07.21

Table 4: Government Grant & Taxation 2022/23 – 2025/26

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Revenue Support Grant	(5.730)	(5.845)	(5.962)	(6.081)
Retained Business Rates	(49.074)	(50.981)	(52.907)	(52.907)
Council Tax (including parish precepts	(146.881)	(153.241)	(159.479)	(165.303)
Public Health Grant	(11.642)	(11.642)	(11.642)	(11.642)
Use of New Homes Bonus	(1.970)	0	0	0
Total Ongoing Resources	**(215.297)**	**(221.709)**	**(229.990)**	**(235.934)**
Resources - estimated February 2021	*(213.245)*	*(219.834)*	*(228.634)*	*N/A*
Increase	**(2.052)**	**(1.875)**	**(1.356)**	**N/A**

Local Taxation

3.25 We have forecasted a strong recovery of Council Tax income in 2022/23 from the drop in revenues in 2020/21. However, a risk still remains to the council's finances due to the unknown longer term impact of COVID-19 on both the size of the tax base and our ability to collect revenue. Although the performance in 2020/21 was better than anticipated it is uncertain how significant the longer term impact of COVID-19 on the collection of local taxation income will be or how long it will take to fully recover once government support is withdrawn.

3.26 Collection rates for Council Tax are currently on target this year but we have yet to see what the impact on the cessation of the Coronavirus Job Retention Scheme (CJRS) in September has on both collection and the need for Local Council Tax Support.

3.27 Refreshed planning build numbers will be used to update the Council tax base for the draft Budget. Planning application numbers are positive so far this year but capacity issues for materials and labour in the construction industry may have a negative impact on new builds.

3.28 Business Rates collection rates have dropped by 5.6% compared to target (after taking account of government reliefs). Collection performance will continue to be monitored closely and an update will be given in the December Draft Budget report.

3.29 An allowance of £5.4m has been made for the Business Rates reset in 2022/23 and for our base to grow by £1m per annum beyond this, although not to previous levels. No consultation has commenced on the reset so therefore it is very unlikely that this will happen in 2022/23. This will be confirmed for the draft Budget but if the reset is delayed further the benefit to the Council will allow the budget deficit to be more evenly spread.

Review of Existing Savings

3.30 In February 2021 £11.592m service savings were approved over the medium term, including £4.909m in 2021/22 as detailed in Table 5.

Table 5 - Agreed Savings

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Adults (Homeless Prevention)	(0.446)	(1.597)	(1.387)	(1.355)
Children's	(0.522)	0.000	0.000	0.000
Finance & Resources	(0.602)	0.000	0.000	0.000
Law & Governance	(0.064)	0.000	0.000	0.000
Environment & Property	(2.009)	(0.286)	0.000	0.000
Planning	(0.173)	0.000	0.000	0.000
Management Action Plan	(1.093)	(0.850)	(0.957)	(0.250)
TOTAL	**(4.909)**	**(2.733)**	**(2.344)**	**(1.605)**

3.31 In 2020/21 we delivered £3.145m of the planned £4.577m savings, with £0.982m deferred to later years and £0.450m undeliverable. Directors are continuing to work on the delivery of their 2021/22 and future year savings, with £2.660m delivered to date. CLT have reviewed the Management Action Plan and agreed to increase the planned savings by a further £1m for 2022/23 through improved organisation efficiency and taking measures which do not impact front line service delivery. We will continue to update Cabinet on progress through the quarterly financial monitoring reports and 2022/23 budget reports.

3.32 The revised MTFP is summarised in Table 6. Over the four years we currently have a funding gap of 9.3m.

Table 6: Medium Term Financial Plan

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Government Funding Adjustments	5.406	(0.019)	(2.011)	(2.120)
Other Funding Sources	(8.336)	(5.942)	(5.829)	(5.441)
Pay, Contract & Other Inflation	7.224	5.750	5.941	6.011
Budget Service Pressures	3.331	5.027	1.864	2.735
Budget Delivery	(8.289)	5.374	0.000	0.000
Corporate Measures	2.314	1.750	1.000	0.000
One-off Pressures	0.701	0.237	0.081	0.000
Total Pressures	**2.351**	**12.177**	**1.046**	**1.185**
Capital Financing Costs	(1.200)	(0.900)	(0.200)	0.000
Total Service Budget Reductions & Income Proposals	(1.505)	(1.898)	(0.762)	0.000
Less Reserves applied to one-off pressures	(0.701)	(0.237)	(0.081)	0.000
Net Ongoing Position	**(1.055)**	**9.142**	**0.003**	**1.185**
Cumulative	**(1.055)**	**8.086**	**8.090**	**9.275**

Budget Approach

3.33 In developing our approach to setting a budget for 2022/23 and making changes to support our medium term position, we are proposing to adopt the following key priorities which guide our approach:

a) We will address the budget deficit in 2022/23 of £3.415m identified in February 2021 through a combination of demand management, improved organisational efficiency and corporate measures.
b) We will review all key demand budgets and rebase these using the latest available data and insights
c) Fees and charges budget will all be rebased using the latest available data and service insights.
d) Inflation assumptions will be revisited in October and updated to ensure that budgets are based on up to date indices.

3.34 We have created £1.055m headroom from the measures included for 2022/23 to manage future net pressures which may be identified in reviewing demand and inflation.

3.35 The aim of this approach is to ensure we set a robust estimate for 2022/23 without the use of one-off funding and protect both our investment in the local recovery where we have allocated £3.41m on a range of projects and programmes and ensure that we are able to continue providing our current front line services to residents.

3.36 There is a risk that the budget gap could increase beyond both the current headroom and level of contingency. Depending on the level of any estimated gap and the reasons for this we will consider what level of reserves might be appropriate to address this in the short term versus the potential need as a last resort to cut services.

3.37 This approach has the benefits of

- Avoiding the risk of making service cuts which could prove to be unnecessary if our budget assumptions are too prudent.
- Ensuring that the Council continues to focus on securing a strong recovery from COVID-19.
- Focusing work on key themes which can contribute over the medium term to the MTFP and address key challenges and reflect changes needed to respond to the emerging pressures from COVID-19.

3.38 CLT will be continuing to review service delivery, outcomes, and performance to ensure that new opportunities are brought forward for consideration for new budget saving opportunities over the medium term.

3.39 To help support the budget process further, we have developed the budget monitoring process in 2021/22 into a rolling budget refresh by extending the forecasting into 2022/23 and not just to the financial year end. This will be fed into the MTFP and published each quarter.

Use of Reserves

3.40 The Council reviewed its reserves as part of the 2021/22 budget. This has been refreshed to reflect the 2020/21 outturn. We will be reviewing these in detail as part of the draft Budget. Based on the current level of reserves (reported to Cabinet in July) and known future commitments and spending plans, there is some additional headroom of £2.822m in the General Fund Working Balance which could be deployed to support the budget if necessary. Details of the current balances and planned use of reserves in 2021/22, can be found in the Financial Monitoring report for Quarter 1, which is also on this Cabinet Agenda.

3.41 Within our targeted budget approach reserves will only be used as a fall-back position if government funding is worse than being projected.

Dedicated Schools Grant

3.42 2022/23 is the fifth year of the National Funding Formula (NFF) for schools and high needs. In late July 2021 an early indicative funding allocation was received for the 2022/23 financial year, but some areas are yet to be confirmed and all areas of funding will be subject to a recalculation based on October 2021 census details. The following table shows the indicative funding allocation on a like for like basis (i.e. assuming no changes to pupil data). Full funding information is expected in December 2021 which does make budget planning and formula setting challenging (particularly as we are required to consult with schools in advance of final information).

Table 7 - DSG Indicative Allocations

DSG Allocation	Schools Block	Central Schools Block	High Needs Block	Early Years Block	Total
	£m				
2021/22 DSG*	219.636	1.654	48.866	21.652	291.808
2022/23 DSG	225.158	1.711	52.551	21.652	301.072
Increase	**5.522**	**0.057**	**3.685**	**0.000**	**9.264**

* Assumes 2022/23 growth funding allocation will remain at 2021/22 levels

3.43 Local Authorities continue to have flexibility in the distribution of the funding formula; however, government expect LAs to transition to the NFF ahead of a hard formula implementation. Milton Keynes currently matches the formula in full, with a small exception on the basic per pupil factor, which is due to pressures on growth funding. The government have launched a consultation on proposals to move to a hard NFF in future which will determine schools' budgets directly, this closes on 30 September.

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

a) Key factors in NFF will increase by 3% providing an increase to those schools already attracting their NFF allocations.

b) The minimum per pupil funding will also be increased to £4,265 for primary schools (£4,000 2021/22) and £5,525 for secondary schools (£5,150 2021/22).
c) Every school will be allocated at least 2% more pupil-led funding per pupil compared to its 2021/22 NFF baseline.
d) The NFF calculations for 2022/23 are based on the most up-to-date school and pupil characteristics data.
e) Sparsity funding is now based on road distance instead of on straight-line distance from pupils' home to school, and a sparsity distance taper have been introduced, in addition to the existing year group size taper.
f) Data on pupils who have been eligible for free school meals at any time in the last six years (FSM6) is now taken from the October school census instead of from the January census, this is to bring the factor into line with arrangements for pupil premium.
g) To calculate the low prior attainment proportions, data from the 2019 early ears foundation stage profile (EYFSP) and key stage 2 (KS2) tests is used as a proxy for the 2020 assessments, which were cancelled due to the pandemic.
h) Pupils joining school between January and May 2020 attract funding for mobility on the basis of their entry date, rather than by virtue of the May school census being their first census at the current school (the May 2020 census was cancelled due to COVID-19).

3.45 In the high needs block, there have also been national increases to the baseline of between 8-11% which is largely allocated based on population data and demographics. The allocation for MK is expected to be 8%. Whilst this increase sounds significant, demand pressures continue to increase, and the reserves are one-off so need to be managed to ensure that the level of expenditure can be maintained in future years. In 2020/21 our reserves increased however this is due to the impact of the pandemic as schools had partial closures during the year and so new requests for support slowed down.

3.46 In the early years block, funding announcements are anticipated later in the calendar year. The main concern in this area is how the impact of Covid-19 will have affected the funding allocation. Funding received is usually based on take up at January census date, however for 2022/23 funding may be based on actual take up for the Summer and Autumn terms. As early years is not a compulsory area of education, we could see reductions in take up and consequently a reduction in funding.

Housing Revenue Account

3.47 The HRA Business Plan underwent a significant refresh during 2020/21 and was approved as part of the February 2021 budget. The business plan is a 30 year financial model and will be subject to an annual refresh alongside the rest of the MTFP.

3.48 The Council has significant investment plans and is looking to extend these to improve the existing stock (including achieving carbon neutrality requirements) and availability of affordable social housing. This will require significant levels of investment and the need to increase borrowing within the HRA and as a result, in last year's budget we agreed a set of prudential indicators specific to the HRA (including agreeing a borrowing cap over the MTFP period) and the Treasury Management Policy has also been updated to reflect this.

3.49 Key elements within the current HRA Business Plan and changes proposed as part of the next refresh:

a) Council tenants will increasingly benefit from the ongoing £165m five-year investment programme and the HRA will continue to grow as the New Build and Acquisition programmes adds to the stock faster than RTB sales deplete it.

b) In 2020 there was an uplift in the Local Housing Allowance rate (because of COVID) which has now been baselined. As a result, instead of an annual uplift of CPI+1%, we are anticipating a freeze of up to three years in the LHA rate (in order to allow for market rent levels comparable to LHA to self-adjust) which will be incorporated into the next refresh of the business plan. Whilst the immediate uplift in the baseline is a positive movement in the plan, the three-year freeze will impact the availability of resources. External advice has been sought on the length of freeze and this will be used as the basis for our planning assumptions.

c) Rent collection rates will come under increasing challenge as Universal Credit is rolled out to replace Housing Benefit, and other aspects of Welfare Reform continue to impact on tenants. The ending of the furlough scheme and wider economic impacts from COVID will also have an impact on collection.

d) The costs of regeneration schemes are being incorporated into the business plan as schemes are brought forward and agreed and therefore the business plan will be updated as part of the draft budget to include the impact of the Lakes Estate Phase A scheme, which was approved at July 2021 Cabinet. Other costs of regeneration schemes (Lakes Estate Phase B, Fullers Slade and Mellish Court and The Gables) are still uncertain, though they will become clearer as schemes move closer to fruition and scenario modelling will be undertaken before schemes are approved in order to ensure borrowing limits are not breached. The costs of regenerating these estates will need to be managed in order to maintain financial capacity to regenerate other priority areas and achieve other priorities such as improving energy efficiency in our existing stock as a result of the new carbon targets.

3.50 The abolition of the HRA Debt Cap, in October 2018, gave the council the financial capacity to increase investment in the stock over the longer term, subject to the affordability constraints of the Prudential Code. The borrowing cap is dynamic and will change as schemes are agreed which therefore impact the operating surplus and availability of resource to fund interest and debt repayment costs. The borrowing cap, as agreed in the February 2021 MTFP is set at £500m (at 2025/26) with borrowing approved of £350m, leaving current headroom of £150m at 2025/26.

3.51 The HRA Business Plan is expressed through the Business Plan Model with inflation assumptions built in across the full 30-year period of the business plan. The MTFP figures in the following table are at current prices consistent with those elsewhere in this report.

Table 8 – HRA MTFP

HRA Budgets	**2021/22 Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 Budget £m**
Expenditure	52.60	50.46	50.55	50.55
Income	(56.52)	(58.51)	(60.14)	(61.73)
Net Spend	**(3.92)**	**(8.05)**	**(9.60)**	**(11.18)**
Capital Transfers	3.92	8.05	9.60	11.18
Net Surplus/Deficit	**0.00**	**0.00**	**0.00**	**0.00**

Capital

3.52 A detailed review has been undertaken to rebase the 2021/22 capital programme, taking into account slippage from 2020/21. There are also a number of schemes that were not included in the original 2021/22 capital programme but have now completed the officer review process. The revised position and the steps undertaken are reported in the 2021/22 Quarter 1 Forecast Outturn report elsewhere on this Cabinet agenda.

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

3.54 The Council has committed all currently available resources to finance the existing capital programme. In December we will be bringing forward proposals to extend the current capital programme by a further year, based on known or projected government ring fenced funding.

3.55 We will be working with Directors ahead of this to review the existing Programme to confirm whether the projects that have not yet started are needed, and what requirements are needed for the business as usual projects funded from existing resources in the 4-year programme. Discussions are being undertaken with Directors to look at priority schemes that are in line with the Councils plan or the Council Priorities.

Integrated Borrowing Strategy

3.56 The Council has ambitious plans to invest in large-scale capital schemes and the majority of these will apply borrowing powers to facilitate delivery. Most significantly the removal of the Government-imposed debt cap to the Housing Revenue Account (HRA) unlocks the full freedoms of the self-regulated Prudential Code provided borrowing plans pass tests for affordability, prudence and sustainability.

3.57 As part of the annual Treasury Management Strategy (TMS), authority is delegated to the Director of Finance and Resources (Section 151 Officer) for the operational execution of the Council's treasury management activity including its borrowing strategy. There are many factors to consider before raising external loans and committing the Council to servicing the associated interest costs. To supplement the high-level strategic approach to borrowing set out in the TMS, officers have prepared an Integrated Borrowing Strategy to highlight in greater detail the underlying considerations that influence decision making and in particular, the common practice of internal borrowing.

3.58 The Council's Integrated Borrowing Strategy is attached as Annex B.

4. Implications of the decision

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

a) Financial implications

This report does not involve any new budgetary considerations but does provide our latest view on the financial context and approach to how the Council will set a balanced and deliverable budget for 2022/23 and over the medium term.

b) Legal implications

The Medium term Financial Outlook sets the financial context and does not set the Budget; as such there are no legal consequences for this report. The Budget will be set by Council in February 2022.

c) Other implications

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

5. Timetable for implementation

- 2 November 2021 – Council Tax Base report to Cabinet
- 14 December 2021 – Draft Budget & Capital Programme report to Cabinet

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List of annexes

Annex A – MTFP Assumptions
Annex B – Integrated Borrowing Strategy