MILTON KEYNES COUNCIL

19 FEBRUARY 2014

Report Considered by Cabinet – 12 February 2014

Executive Summary:

This report recommends the 2014/15 Revenue Budget, Council Tax level, Capital Programme and Prudential Indicators for the approval of Cabinet and recommendation to Council.

The report is informed by the results of the public consultation exercise and includes the statutory decisions that must be made by the Council to set its budget.

The details in this report have been prepared in accordance with the framework set out in the Medium Term Financial Plan (MTFP) which is also on this agenda.

COUNCIL BUDGET 2014/15

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1. Recommendations

The Cabinet is recommended to approve and recommend to Council:

1.1 The 2014/15 Net Revenue Budget of £196.861m.

1.2 The Capital Programme including its financing.

1.3 A Council Tax at Band D of £1,138.04, a nil percent increase on the previous year.

1.4 That it be noted that, in line with the requirements of the Local Government Act 2003, the Corporate Director, Resources is of the view that:

- Based on the Period 10 2013/14 forecast, the General Fund balance is adequate to meet the Council's financial needs in 2014/15. This view takes account of the reserves included in the Council's latest audited Accounts as at 31st March 2013; the movement of these reserves since that date (as tracked through the Budget Monitoring Reports); and the new reserves required, as outlined in the MTFP report.

- The financial position set out in this report is sufficiently robust to allow a budget to be set for 2014/15. This takes into account the adequacy of the level of balances and reserves outlined above and the assurance gained from the forecast position for 31st March 2014.

1.5 That it be noted that the estimated 2014/15 Dedicated Schools Grant (DSG) is £211.166m.

1.6 That the fees and charges for 2014/15, including the exemptions to the Income Policy be approved.

1.7 That it should be noted that a Targeted Youth Support Service is being developed to support vulnerable young people and those ‘at-risk’.

1.8 That it should be noted that, at its meeting on 18th December 2013, the Cabinet approved the number of 76,261.84 equivalent Band D properties as the Council’s Tax Base for the year 2014/15 in accordance with Section 31B of the Local Government Finance Act 1992.

1.9 It should be noted that the Council Tax requirement for the Council’s own purposes for 2014/15 (excluding Parish Precepts) is £86.789m.

1.10 That the following amounts for the year 2014/15 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 [the “Act”] (note these will be confirmed once all precepts have been received):

a.	£647.611m	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils.
b.	£555.927m	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3).
c.	£91.684m	As its Council Tax requirement for the year, being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council, in accordance with Section 31A(4).
d.	£1,202.23	As the basic amount of its Council Tax for the year (including Parish Precepts), being the amount at (c) above, divided by the Council Tax Base agreed on 18th December 2013
e.	£4,895,124	Being the aggregate amount of all special items (Parish Precepts) referred to in Section 34(1) of the Act.
f.	£1,138.04	Being the amount at (d) less the result given by dividing the amount at (e) above by the Council Tax Base agreed on the 18th December 2013, as the basic amount of Council Tax for the year for Milton Keynes Council, excluding Parish and Major Precepting Authorities.

1.11 That the following amounts be calculated for Milton Keynes Council Tax:

VALUATION BANDS							
A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
758.69	**885.14**	**1,011.59**	**1,138.04**	**1,390.94**	**1,643.84**	**1,896.73**	**2,276.08**

1.12 That the amounts given by multiplying the amount at (f) by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to all dwellings listed in each particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act.

1.13 That for the year 2014/15, Police & Crime Commissioner for Thames Valley, in accordance with Section 40 of the Local Government Act 1992, has stated the following precepts to the Council for each of the categories of dwellings:

VALUATION BANDS (to be confirmed)							
A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
102.87	120.01	137.16	154.30	188.59	222.88	257.17	308.60

1.14 That for the year 2014/15, Buckinghamshire and Milton Keynes Fire Authority, in accordance with Section 40 of the Local Government Act 1992, has stated the following precepts to the Council for each of the categories of dwellings:

VALUATION BANDS (to be confirmed)							
A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
39.42	45.99	52.56	59.13	72.27	85.41	98.55	118.26

1.15 That as a result of the above, the amounts of Council Tax (shown in **Annex G2**) be set in accordance with Sections 30 and 36 of the Local Government Act 1992, for each of the categories of dwelling shown in the Schedule.

1.16 That the Treasury Management Strategy for 2014/15 to 2018/19 and the Treasury Policy Statement, including the Minimum Revenue Provision Policy be agreed.

1.17 That the prudential indicators for Capital Expenditure and the Capital Financing Requirement, the Authorised Limit and Operational Boundary for External Debt, the Affordability Prudential Indicators and the Treasury Management Prudential Indicators for the years 2014/15 to 2018/19, be agreed.

1.18 That the Authorised Limit for external debt of £587m for 2014/15 to be the statutory limit determined under section 3(1) of the Local Government Act 2003 be confirmed.

1.19 That the resource allocation for the 2014/15 Tariff programme be approved.

1.20 That the equalities impact assessment for the budget be considered and are used to inform the Budget Resolution of the Council.

2. RELATED DECISIONS

2.1 Previous decisions in this context relate to:

- The Council Tax Base Report as approved by Cabinet on 18th December 2013.
- The Medium Term Financial Plan (MTFP) 2014/15 to 2018/19 on this agenda.
- The report of the Budget Review Group.
- The Council agreed to continue with the Local Council Tax Reduction Scheme for the financial year 2014/15, on the basis of the Scheme as adopted by the Council on 12th December 2012, except for the changes to the Prescribed Local Council Tax Reduction Scheme Regulations issued by Department for Communities and Local Government, to be delegated to Corporate Director of Resources.
- The Council approved the Housing Revenue Account Budget and Housing Rents on 15th January 2014.

2.2 Future decisions and discussions relating to this issue are:

- The Council Budget and approval of parish and town councils funding distribution of £726,048 as set out in amended **Annex E** as part of the Council Tax Base Report and Business Rate Baseline 2014/15 and amended Council Tax Base Report and Business Rate Baseline 2014/15 to be considered by Council on 19th February 2014.

3. INTRODUCTION

3.1 The Council's Medium Term Financial Plan (MTFP) which is included on this agenda sets out the:

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

3.2 The 2014/15 Revenue Budget and Capital Programme as set out in this report have been developed in accordance with the context and resource assumptions detailed in the Medium Term Financial Plan.

3.3 This report deals with budget issues in the following sequence:

Section 4 – Changes from the Draft Revenue Budget

Sections 5 to 7 – 2014/15 Revenue Budget (General Fund)

General Fund Resources

General Fund Expenditure

General Fund Savings

Other issues

Summary of 2014/15 Revenue Budget

Section 8 – Parking Account

Section 9 – Capital Programme

Capital Resources

Capital Expenditure

Summary of Capital Programme

Section 10 – Prudential Code

Section 11 – Housing Revenue Account

Section 12 – Dedicated Schools Grant

Section 13 – Budget Consultation

Section 14 – Robustness/ Risks

Section 15 – Overall Budget Summary

4. CHANGES FROM DRAFT REVENUE BUDGET

4.1 There are some changes to the draft budget approved by Cabinet on 27 November. They result from these factors;

- Changes in risks in individual service areas and the resulting resources required.
- Decisions made since the draft Budget and issues raised in public consultation.
- The provisional Local Government Finance Settlement and the latest view of financial intelligence.

Budget Changes Identified since 2014/15 Draft Budget

4.2 During the development of the final 2014/15 Budget any changes or additional issues identified by services must be considered to ensure the budget recommended to Council is robust and deliverable.

4.3 As a result of this review, two additional on-going pressures have been identified and nine on-going savings proposals included in the draft Budget need to be either reduced or removed. These are summarised over the page:

On-going Pressures Identified since Draft Budget

2014/15 £m	New Pressures	Comment
0.200	Unachievable legal trading income (**Annex B -** P30)	Legal services budgets have recently been reviewed, which has demonstrated there is a historic unachievable income target within the service, which cannot be offset by existing base budget.
0.053	Enhancement of bus routes (**Annex B** – P31).	As a result of Budget consultation, the Council wishes to enhance bus route number 18.
0.253	**Total New Pressures**	

Changes to Savings Proposals since Draft Budget

2014/15 £m	Changes to Savings	Comment
0.050	Reduction to Community Mobilisers saving proposal (**Annex D** - S139).	The Council has decided to review the role of Community Mobilisers. An efficiency will be achieved by a review of service provision to ensure clearer focus on supporting children and families in the community. One-off funding of £0.050m has been provided in 2014/15 to enable a smooth transition.
0.015	Reduction to the withdrawal from Milton Keynes City Centre Management saving proposal (**Annex D -** S141).	The Council on reflection believes it would be appropriate to remain part of the City Centre Management, particularly because of the new business plan which has been drawn up. However it is still felt to be appropriate to withdraw from receiving the four audits, which will save £0.015m. One-off resource has been built into 2014/15 budget to transition this saving.
0.018	Removal of the withdrawal from SLA with Buckinghamshire and Milton Keynes Centre Management savings proposal (**Annex D** - S142)	After a review, the Council believes it should honour the agreement to renew the SLA with Buckinghamshire and Milton Keynes Centre Management to facilitate its work and practices.
0.250	Removal of placements budget savings proposal (**Annex D** - S19).	The 2014/15 children's placements saving proposal will not be deliverable, due to an increase in care costs within 2013/14, as a result of additional placements and high cost needs, partly driven by new legislative requirements.
0.041	Removal of synergies through closer working between Youth Offending Team and the Community Safety Team saving proposal (**Annex D -** S114).	Identified savings to be shared across the organisation are not now proceeding.

2014/15 £m	Changes to Savings	Comment
0.050	One-off reduction to aligning the parish Council Tax grant, to funding received from Government for the impact of Local Council Tax Reduction Scheme saving proposal (**Annex D** - S3).	The Cabinet has responded to Budget consultation feedback from parish and town councils, by reducing the £0.10m draft Budget saving by £0.05m (on a one-off basis), in order to restrict individual parish and town councils Council Tax Reduction Scheme losses to a maximum of £2.68 per Band D equivalent within 2014/15.
0.050	Reduction to Partnership Fund saving proposal (**Annex D** – S92).	Following a Council review of future parish commitments this saving has been reduced to £0.037m.
(0.009)	Increase to printing & stationery saving proposal (**Annex D** – S73).	Further savings have been identified.
0.030	One-off reduction in the Community Safety saving proposal (**Annex D** - S109).	The draft Budget saving has been reduced by £0.03m on a one-off basis to enable the completion of work with the Community Safety Partnership work.
0.495	**Total Changes to Savings**	

4.4 There has also been a number of changes identified to the Council's one-off Budget pressures since the draft 2014/15 Budget publication, these are highlighted in **Annex C** and are funded by one-off resources (which are identified in table 2).

Provisional Local Government Finance Settlement

4.5 The Provisional Local Government Finance Settlement was announced in December 2013 and provided local authorities with provisional funding figures for 2014/15 and 2015/16.

4.6 The Government also confirmed a range of Business Rates measures to support local businesses in 2014/15, originally announced in the Autumn Statement. These measures reduce the amount of Business Rate income that local authorities can collect and therefore reduce retained Business Rate funding (local share) allocations. The Government confirmed the cost of these measures would be fully funded through a special grant under Section 31 of the Local Government Act 2003 (S31).

4.7 At present, local authorities are not able to determine their reduced Business Rate yield, until further Government guidance is provided. The Budget will show the S31 grant separated from the Council's retained Business Rates funding when the specific grant amounts are known.

4.8 Overall, the provisional settlement showed that Revenue Support Grant (RSG) reductions in 2014/15 and 2015/16 would be slightly less than the Council had anticipated, mainly as a result of the Government releasing funding (which was previously held back from the RSG) to provide for a proportion of capitalisation costs and New Homes Bonus payments. However, the Council is still facing continued, significant funding reductions in 2015/16 and beyond, which means the Council still needs to identify additional savings over the medium-term.

4.9 The change to the Councils estimated RSG funding forecasts is set out below:

Provisional Revenue Support Grant	2014/15 £m	2015/16 £m
Draft Budget RSG Estimate	(49.149)	(35.110)
Provisional Financial Settlement RSG Increase - One-off Funding	(0.326)	(0.000)
Provisional Financial Settlement RSG Increase – On-going Funding	(0.423)	(0.423)
Final Budget RSG Estimate	**(49.898)**	**(35.533)**

5. REVENUE BUDGET 2014/15

General Fund Resources - ongoing

5.1 The Provisional 2014/15 Local Government Finance Settlement confirmed that Milton Keynes Council is likely to receive £49.9m in Revenue Support Grant for 2014/15. The final allocation may be confirmed before this Cabinet meeting.

5.2 In addition, the Council estimates it will retain £42.2m of business rates (including S31 grant). The Baseline Business Rates funding has been incorporated as ongoing resources.

5.3 The Council is also estimating it will receive an Education Services Grant of £3.3m. The forecast of resources allows for potential deductions to reflect any schools converting to Academy status during the financial year and the Government's decision to reduce the overall funding allocation from the previous year. The final resources available may differ depending on the actual number of conversions during the year.

5.4 Therefore total Government funding is estimated at £95.4m for 2014/15, compared to £105.2m for 2013/14.

Ongoing Revenue - Key Assumptions

5.5 In summary, the following assumptions have been made to determine the likely resources available in 2014/15:

- An increase in the number of Band D properties of 1,606 homes, based on current projections.
- Government funding through Revenue Support Grant and Retained Business Rates per the Provisional Local Government Finance Settlement announced in December.
- The Government's Business Rate measures announced in the Autumn Statement (resulting in a loss of Business Rates local

share funding for the Council), will be fully funded through S31 grant.

- Education Services Grant reduced by £0.3m as a result of Department for Education funding reductions and estimated funding reductions for schools transferring from maintained settings to academies.
- No rise in Council Tax compared with 2013/14, which means the Council will receive a Council Tax freeze grant equivalent to a 1% Council Tax rise (c£1m).

Table 1: Summary of Forecast Revenue Resources for 2014/15

Revenue Resources	£m
Revenue Support Grant	(49.898)
Retained Business Rates (including S31 grant)	(42.242)
Central Education Grant	(3.254)
Council Tax (including parish precepts)	(91.684)
Council Tax Freeze Grant	(0.995)
Public Health Grant	(8.788)
Total Ongoing Resources 2014/15	**(196.861)**

5.6 The recommended Revenue Budget includes a 0% Council Tax increase from 2013/14. This means the Milton Keynes Council element of the Band D Council Tax will remain at £1,138.04.

5.7 It is important to note that final Council Tax bills will also be affected by the Council Tax precept set by Buckinghamshire Combined Fire Authority, the Police and Crime Commissioner for Thames Valley, and individual parish and town councils. When these individual precepts are known, they will be incorporated into the overall Council Tax charge as set out in table 8.

General Fund - One-off Resources

5.8 The Council has been providing for future years liabilities through the development of the sustainability budgets. In the interim these budgets can be used to fund to one-off budget pressures. The use of part of the sustainability budget to invest in Highways Infrastructure will occur (as expected) in 2014/15, this means one-off resources will reduce in future years. If insufficient one-off resources are available in future years, one-off pressures will need to be met from ongoing funding, so the strategy to use one-off resources to meet future pressures is a prudent approach.

5.9 In accordance with the Council’s financial principles, the following one-off resources are available to use in the 2014/15 Budget to fund identified one-off pressures.

Table 2: Summary of One-off Revenue Resources for 2014/15

One-off Resources	£m
Use of Sustainability Items	(4.378)
One-off funding not required	(0.194)
Budget Rollovers not required	(0.193)
Waste project - office costs not required	(0.354)
Release of Other Reserves	(0.100)
Return of New Homes Bonus top slice arising from Provisional Settlement	(0.100)
Collection Fund surplus	(1.000)
2013/14 Forecast general fund underspend (as per P10 monitoring)	(0.435)
Total One-off Resources	**(6.754)**

General Fund Expenditure

5.10 In determining the forecast Revenue Budget expenditure for 2014/15 the following assumptions have been made:

- Goods and services general inflation other than utilities will be offset by efficiency savings in services and are therefore set at 0%.
- Contractual inflation – based on existing contract agreements.
- 2.4% increase in fees and charges in line with consumer price index (CPI) forecasts, apart from those exemptions listed in **Annex J**.
- Pay inflation – assumed that the pay award will be equivalent to a 1% pay increase.

5.11 In accordance with the Council's financial principles, the 2014/15 Revenue Budget includes additional contributions as part of the Council's sustainability items. This will ensure sufficient funding is in place to meet the costs of the Residual Waste Treatment Facility which will be funded from prudential borrowing in 2016/17; the agreed investment in Highways Infrastructure also funded from prudential borrowing, and the potential additional costs as a result of the actuarial review of employer's pension contributions.

5.12 While the costs of highways prudential borrowing and the revised pension contribution will be incurred in 2014/15, the costs of prudential borrowing for the Residual Waste Treatment Facility will not, therefore this funding is available to be used on a one-off basis to meet one-off pressures in the 2014/15 budget. This funding is shown in table 2 above as one-off resources.

5.13 As part of the 2014/15 budget process Service Groups have identified ongoing and one-off pressures. All pressures identified have been challenged as part of both officer and Member scrutiny of the Final Revenue Budget. This is to ensure that pressures are realistic, reflecting a reasonable forecast of future costs to ensure an accurate budget, but not overstating costs. A full list of all ongoing pressures is included at **Annex B** and one-off pressures at **Annex C**.

5.14 The 2014/15 budget pressures can be summarised as follows:

Table 3: 2014/15 Budget Pressures

Pressures by Category	£m
Demography	1.314
Legislative	0.285
General	0.887
Total On-going Service Pressures	**2.486**
Corporate & Sustainability Items	2.250
Total On-going Pressures	**4.736**
One-off Budget Pressures (Service Groups)	4.173
One-off Budget Pressures (Corporate)	2.361
Total One-off Budget Pressures	**6.534**

Note: One-off Budget Savings of £0.215m (Annex E) reduce one-off pressures to £6.319m

5.15 Ongoing Budget pressures of £4.7m will be funded across the Service Groups, with a further £6.5m of one-off expenditure being funded from identified one-off resources (table 2) and one-off savings (**Annex E**).

5.16 Overall, there is surplus one-off funding in 2014/15 of £0.4m, which is the period 10, 2013/14 general fund monitoring under spend position. At present, this funding is yet to be allocated, but based on the Council's financial principles will be used to fund future one-off pressures, assuming the 2013/14 financial outturn does not worsen.

5.17 This approach ensures that base budgets are not adjusted for one-off expenditure which is not on-going. In total an £11.3m of additional pressures will be met in 2014/15.

Levies

5.18 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. 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 2014/15, but for the purposes of this Revenue Budget it has been assumed that they will remain at the same level as 2013/14.

Table 4: Levies in 2014/15

Levying Authority	£
Environment Agency – Flood Defence (TBC 14th Feb)	131,926
Buckingham and River Ouzel Internal Drainage Board (TBC 5th Feb)	312,160
Total	**444,086**

Precepts

5.19 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.

5.20 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.

6. General Fund Savings

Strategy for Balancing the Budget

6.1 The reduction in Government funding combined with ongoing pressures continues to mean the Council needs to reduce its costs or increase its income, in order to deliver a balanced budget.

6.2 In light of the anticipated medium term gap, the Council has developed a forward strategy to inform future financial planning and service planning, by providing a framework for reducing the Council's planned expenditure, and to maximise income generation over the medium term to ensure the Council is financially sustainable, while still delivering the key priorities as set out in the Corporate Plan. The strategy focuses on three key areas:

- Cost reduction – Reducing costs within existing service models, the reduction of back office overheads and ensuring charging for services is set at optimum levels.
- Looking at new delivery models – Move to more commissioned services, diversifying provision, the sharing of services and engaging users in design.
- Entrepreneurship – Managing demand for services, maximising returns on investment, exploiting commercial opportunities and growing Milton Keynes Business Rates.

6.3 A number of key Council activities will continue to be undertaken to deliver cost reductions and service transformation in line with this strategic approach. These activities are underpinned by medium-term financial assumptions that reduce major areas of Council expenditure in order to set a balanced budget each year.

6.4 This is dealt with in more detail in the MTFP elsewhere on this agenda. Essentially, in that report the Council outlines an approach that links strategic planning with financial planning that is designed to deliver and balance the budget over the next five years. It describes the results of our financial modelling that show the level of controllable expenditure and how much it needs to be reduced to achieve the Council's financial and strategic scenarios over a five year period. In undertaking this exercise the best estimates of the spending pressures, reductions in resourcing and the effect of the business rates retention scheme have been taken into account. This leads to a cumulative savings target of £54.2m over the next five years to be taken from controllable revenue expenditure.

6.5 A summary of the savings proposals is shown in the table 5. The detail of the individual savings is included in **Annex D** and one-off savings are included in **Annex E**:

Table 5: Savings/Income Proposals 2014/15

Savings by Category	**£m**
Service Redesign	5.896
Commissioning/ Efficiency	5.408
Overhead Reduction	2.540
Income Growth for Charged Services	0.203
Service Reduction	0.157
Total Service Savings Proposals	**14.204**
Debt Financing Saving	0.548
Total Ongoing Savings Proposals (see Annex D)	**14.752**
One-off savings (see **Annex E**)	0.215

Reserves

6.6 The Council is currently forecasting a general fund underspend of £0.4m in 2013/14. The intention is for any year end underspend to be carried forward and used to fund future unfunded one-off pressures identified in the Council's medium-term planning process. The General Fund Reserve includes £1.5m, above the minimum prudent level, which was added to General Fund Reserves to mitigate against the risks in the delivery of budget savings.

6.7 While the prudent minimum level of General Fund Reserves remains at £7.0m, the Corporate Director Resources' recommendation on the adequacy of reserves and assurance on the budget requires that the £1.5m of additional reserves is maintained to mitigate against the risks in the delivery 2014/15 budget.

Recharges

6.8 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 was completely revised for 2011/12, and has been reviewed for 2014/15. The revised methodology is set out in **Annex I**. This methodology takes account of both the Best Value Accounting Code of Practice published by CIPFA and International Financial Reporting Standards.

6.9 The recharges will be finalised once budgets have been agreed at the Council meeting on 19th February 2014. In future years the level of recharges is expected to fall, as overheads continue to be reduced.

Fees and Charges

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

- Charges will increase annually charges in line with 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).

6.11 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.

6.12 The full list of proposed fees and charges is available at **Annex K**. However, the exceptions to the Income policy are outlined in **Annex J**.

Local Council Tax Reduction Scheme

6.13 Schedule 4 of the Local Government Finance Act 2012 requires, for each financial year, that each billing authority must consider whether to revise its Local Council Tax Reduction Scheme (LCTRS) or to replace it with another scheme. The authority must make any changes to its scheme, or any replacement scheme, no later than 31st January in the financial year preceding that for which the revision or replacement scheme is to have effect.

6.14 Within the Cabinet report recommending the adoption of the scheme in December 2012, it was detailed that it would remain in place for at least the first two years from April 2013. The two year minimum lifespan of the scheme was to provide individuals certainty about the level of support they will receive, and to enable the Council to undertake a review of the scheme with sufficient information on which to base future changes.

6.15 The Council's LCTRS was approved by Cabinet in November as part of the draft Budget and subsequently approved by full Council in January.

Local Council Tax Reduction Funding

6.16 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 approximately 90% of the impact for this change.

6.17 Additional Government funding (a grant in 2013/14) is also provided to major precepting authorities on behalf of parish and town councils to offset a proportion of their reduced Tax Base as a result of the scheme.

6.18 In 2013/14, the Council passed on the full Government grant allocation of £0.676m to parish and town councils, plus a further £0.1m from the Councils own resources, as a result of the late confirmation from Government on the impact of the LCTRS scheme on parishes.

6.19 From April 2014, the Government grant of £0.676m forms part of the Council's non ring-fenced RSG funding.

6.20 As a result of the significant medium-term reductions to the Councils RSG, the draft Budget proposed to cease providing the £0.1m funding top-up to parish and town councils in 2014/15.

6.21 However, as a result of consultation with parish and town councils during the Budget consultation process, when approving 2014/15 Council Tax Base in December, the Cabinet agreed to reinstate £0.05m of funding on a one-off basis during 2014/15. This restricts individual parish and town council losses to a maximum of £2.68 per Band D equivalent, which equates to an overall loss of £0.111m across all parish and town councils. This has been agreed by the Parish Forum.

6.22 The parish and town council precepts are set out in **Annex G1** (these will be updated for Council once all precepts have been received).

Development of Targeted Youth Support and the Provision of Community Led Positive Activities

6.23 The Cabinet is asked to note the following key decision within Children Services, as this has not been previously reported to Cabinet.

6.24 A Targeted Youth Support Service is being developed to support vulnerable young people and those 'at-risk'. Community groups are being supported to engage in the development and delivery of positive activities for young people at a universal level.

6.25 The current youth service delivery model is primarily universal in nature. It is proposed to move to a targeted youth support model to enable more direct work with vulnerable young people on their presenting needs. In terms of work with vulnerable young people and those facing challenges in their lives, such as those Not in Education, Employment and Training (NEET); teenage pregnancy; and anti-social behaviour it is proposed to develop a more bespoke approach to meeting individual needs via targeted youth support.

6.26 The Connexions contract is currently provided by Prospects. Connexions currently provide services to young people who are NEET, or those who are at risk of becoming NEET. It is proposed not to renew this contract on its completion at 31st March 2015, and the work to support young people who are NEET to be undertaken by a new targeted youth support service model.

6.27 The proposed model also seeks to work with the community and voluntary sector on the development of a wide and diverse range of provision for young people. It is anticipated that with support, community led delivery will be from the facilities which have traditionally been operated by Milton Keynes Youth Service. It is also intended to support new community groups to develop provision in areas and venues where provision of positive activities for young people have not been available or evident before through the establishment of a Youth & Community work team.

6.28 The proposed model will result in an estimated reduction of 4fte Youth Service manager posts, and all youth centres operated by the Youth Service shall be transferred to the new provider through the Community Asset Transfer programme. This is in addition to the saving by not renewing the contract with Prospects.

6.29 Overall savings are £1.1m over a two year period, from a current service budget of £3.2m. The proposed model will enable Milton Keynes Council to deliver its statutory obligations in respect of young people's access to positive activities; and for those who are NEET, at risk of becoming NEET and the duties in respect of the Raising of Participation Age (RPA).

7. Summary of Revenue Budget 2014/15

7.1 In total, the 2014/15 Budget includes £22.8m of budget pressures and funding reductions, offset by £14.8m of savings, £1.8m of additional income and £6.8m of one-off funding (which includes £0.4m of one-off funding yet to be allocated).

Table 6: Summary Budget Position 2014/15

	£m
Technical Adjustments / Changes to Base Budget	0.341
Inflation	2.541
Corporate pressures	2.250
Other ongoing pressures	2.486
One-off pressures (net of one-off savings)	6.319
Funding Reduction	8.890
Total pressures	**22.827**
Additional income (Council Tax)	(1.756)
Total Savings	(14.752)
Less one-off funding (funding identified one-off pressures)	(6.319)
Net on-going position	**0.000**
Surplus one-off funding (still to be allocated)	**(0.435)**

7.2 Table 7 summarises the base budget position for the 2014/15 Revenue Budget. In addition to this base budget position, service groups will receive the one-off budget pressures and deliver one-off savings, as set out in **Annexes C and E**.

Table 7 – Summary of On-going Revenue Base Budget 2014/15

	Base Budget 2014/15 £000	Inflation/ Pressures £000	Savings £000	Net Expenditure £000
Resources: Finance, Governance & HR	26,090	818	(2,476)	24,432
Resources: Public Access	5,217	134	(871)	4,480
Adult Social Care & Health	65,411	953	(1,306)	65,058
Housing & Community	1,672	33	(371)	1,334
C&F: Integrated Support & Social Care	47,559	435	(1,410)	46,584
C&F: Education, Effectiveness and Participation	17,406	134	(1,814)	15,726
Planning & Transport	340	148	(1,585)	(1,097)
Public Realm	43,053	1,030	(2,633)	41,450
Corporate Core	2,043	117	(325)	1,835
Total	**208,791**	**3,802**	**(12,791)**	**199,802**
Other Cross Cutting Savings				
Review of Staff Terms and Conditions			(900)	
Business Support Reductions			(250)	
Other cross cutting savings			(204)	
Total cross cutting savings proposals				***(1,354)***
Pay Inflation				1,104
Levies, Sustainability items and Redundancy Costs				10,054
Debt Financing				18,880
Asset Management				(32,563)
Recharges to HRA				(4,634)
Parish Precepts paid				5,572
Total Expenditure				**196,861**
FUNDED BY:				
Revenue Support Grant				(49,898)
Retained Business Rates				(42,242)
Council Tax (including parish precepts)				(91,684)
Council Tax Freeze Grant				(995)
Education Services Grant				(3,254)
Public Health Grant				(8,788)
Total Funding				**(196,861)**

7.3 This Budget results in Council Tax to be raised of £86.79m (MKC share only), based on a 0% Council Tax increase.

Table 8: Council Tax to be raised 2014/15

	£m
Net Expenditure requirements	196.861
Less: Revenue Support Grant	(49.898)
Less: Retained Business Rates	(42.242)
Less: Central Education Grant	(3.254)
Less: Public Health Funding	(8.788)
Less: Council Tax Freeze Grant	(0.995)
Less: Council Tax Collected for Parish Councils tbc	(4.895)
Milton Keynes Demand on Collection Fund	**86.789**
No. of Band D Equivalent Properties	76,261.84
Band D Elements of Council Tax	**£**
Milton Keynes Council	1,138.04

7.4 Precepts information for parish and town councils, the Police and Crime Commissioner for Thames Valley and the Buckinghamshire and Milton Keynes Fire Authority are not available at this time, but will be added to the Council's figures in due course.

8. PARKING ACCOUNT

8.1 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 1984 Road Traffic Act. As in previous years, the Council has estimated the likely income it will receive from car parking in 2014/15, the costs that are required to manage car parking, and has considered the need for additional car parking. As a result of this process it has been identified that car parking is expected to generate a surplus in 2014/15, which will be transferred to the General Fund for use in accordance with section 55(d) of the Road Traffic Act 1984 to fund:

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

8.2 A delegated decision on the Parking Reserve Account will be taken shortly after the end of each financial year at which the portfolio holder should be invited to:

- Note the gross on-street parking income and net parking surplus for the year.
- Confirm the budgeted expenditure of that surplus on permitted purposes during the year.

- Note whether that creates a surplus or a deficit on the Parking Reserve Account, and

- (If there is an “unbudgeted surplus”) determine whether that should be retained as a “reserve” in the account or applied (as a one-off resource) to any particular permitted purpose.

8.3 **Annex L** outlines the forecast parking surplus and the use of this surplus as part of the 2014/15 Budget.

9. CAPITAL PROGRAMME

Capital Resources

9.1 The capital funding allocations for Education Basic Need, Transport and Adult Social Care for 2014/15 have all been confirmed by the Government, however, confirmation is still awaited for the Children and Families capital maintenance funding allocation.

9.2 Under the housing Self-financing, the Council’s investment in housing will be determined by a long-term asset management plan and will be limited by the resources available within the HRA, unless a third party contribution is made as part of a wider regeneration scheme.

9.3 Work on the long-term Asset Management Strategy is ongoing. Survey work completed so far has enabled the development of an indicative programme of regeneration works which has led to the procurement process to seek to appoint a regeneration partner.

9.4 Table 9, 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 MTFP report. However, the key assumptions for the financing of the Capital Programme are:

- Basic Need, Transport and Adult Social Care capital financing is based on confirmed allocations from the Local Government Finance Settlement.

- Children and Families financing has been assumed at 2013/14 levels for capital maintenance.

- Housing funding is based on an estimated contribution from revenue to capital based on affordability within the HRA.

- Broadband investment will be funded by the New Homes Bonus.

- No tariff or developer contributions have been assumed, except where specified in project appraisals.

- Pooled receipts and the Council’s allocation of New Homes Bonus have been fully allocated within the 2014/15 Capital Programme, to fund projects such as East West Rail, V4 Crossings, and enhancements required for Information Technology (IT) and Administration Buildings.

9.5 No assumptions have been made in the financing of the programme in respect of Integrated Transport funding allocated to the Local Enterprise Partnership (LEP) from 2015/16 onwards. This may be allocated in the future by the LEP to support transport infrastructure projects within Milton Keynes.

Table 9: Forecast Medium Term Capital Resources

	2014/15£m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 Onward £m
SCE(R)	(20.545)	(0.220)	(0.220)	(0.220)	0	0
Single Capital Pot	(40.213)	(32.003)	(33.047)	(20.701)	(20.701)	(12.711)
Capital Receipts	(17.128)	(1.468)	(0.720)	(0.720)	(0.445)	(0.660)
Third Party Contributions	(8.064)	(0.050)	(0.050)	(0.050)	(0.050)	0.000
Grants	(22.997)	(3.357)	(18.404)	(10.239)	(10.050)	(5.000)
Parking Reserve	(0.075)	(0.125)	(0.050)	(0.050)	(0.050)	0.000
Prudential Borrowing	(18.181)	(7.929)	(137.080)	(8.193)	(7.917)	0.000
RCCO	(23.478)	(20.200)	(17.804)	(17.804)	(17.804)	(21.804)
Developer Contributions	(12.457)	(21.742)	(10.316)	(10.839)	(23.700)	(32.140)
Earmarked New Homes Bonus	(4.599)	(6.310)	(2.201)	(4.294)	(5.510)	(6.027)
Total Funding Available	**(167.737)**	**(93.404)**	**(219.892)**	**(73.110)**	**(86.237)**	**(78.342)**

9.6 No scheme is included into the Medium Term Capital Programme unless it is fully funded. The 2019/20 onward figures reflect the resources required in future years to complete those schemes approved as part of this Medium Term Capital Programme. The 2019/20 figures do not include new starts in 2019/20.

9.7 The New Homes Bonus has been earmarked to finance infrastructure projects, together with investment in the museum, gallery expansion, corporate accommodation project and funding of costs associated with the Agora Centre. If alternative capital resources are identified the New Homes Bonus will be released.

9.8 Prudential borrowing is being used to finance the Highways and Infrastructure investment (2014/15 onwards), and the Residual Waste Treatment Facility (£130m in 2016/17). The revenue costs of this borrowing will be met through the revenue budgets being developed as part of the sustainability items.

Capital Expenditure

9.9 The 2014/15 Capital Programme is based on the Medium Term Capital Programme agreed at February 2013 Council.

9.10 Schemes have been reviewed and scrutinised to determine uncommitted resources remaining, which were then allocated to urgent and priority schemes.

9.11 Future years' allocations have also been refreshed. The schemes proposed in the 2014/15 and Medium Term Capital Programme are available at **Annex N**.

9.12 Table 10, shows the summary expenditure proposed in the 2014/15 and Medium Term Capital Programme.

9.13 The schemes marked as continuing, are those schemes which have commenced as part previous years Capital Programmes. Expenditure in the 2019/20 column reflects the expenditure required to complete the schemes commenced in the Medium Term Capital Programme, but does not include any new starts in 2019/20.

9.14 The main new expenditure items are as follows:

- The Children and Families programme continues work on primary schools in the western and eastern expansion areas and development of additional school places.

- The new starts expenditure for the Housing Revenue Account is currently based an estimated asset investment requirement. The current programme includes a contingency for work which will be required to maintain stock not currently within the regeneration programme, together with a planned approach to addressing the main seven estates. Retained right to buy receipts are being used together with funding from the Housing Revenue Account to fund the new build programme of 26 new bungalows and the purchase of 35 to 40 affordable homes.

- The Council has incorporated a contribution to the Gallery expansion from 2014/15 and the improvement of the City Museum from 2015/16. Both of these schemes will be led by other organisations and are dependent on external funding. The Council contribution has been earmarked from the New Homes Bonus; if alternative funding becomes available the source of funding will be amended.

- A contribution to Badminton England for a new facility, funding for the Corporate Accommodation project, funding to the redevelopment Agora Centre and bus infrastructure provision have also been included in the programme.

9.15 The Council has developed a 15 year programme of investment needs and potential funding. This programme identifies shortfalls in resources from 2018/19 after allowing for the use of New Homes Bonus.

9.16 These shortfalls are largely due to a CMK multi-storey car park; completion of the grid in the Western Expansion Area, work on V4 crossings and contributions to Tariff schemes to address the impact of growth.

9.17 While the position will change in the next few years, it is unlikely this shortfall will be addressed fully. The decisions made in relation to the 2014/15 Capital Programme should be taken in the context of this likely shortfall.

Table 10: Summary Expenditure in Medium Term Capital Programme

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 Onward £m	TOTAL £m
Education – Continuing Schemes	30.243	34.651	16.401	2.446	0.000	0.000	**83.741**
Education – New Starts	5.630	22.109	15.297	8.415	41.261	52.776	**145.487**
Transport – Continuing Schemes	20.606	1.750	1.750	0.250	0.250	0.000	**24.606**
Transport – New Starts	15.329	19.293	34.186	28.491	29.465	19.500	**146.264**
Social Care & Housing GF – Continuing Schemes	0.954	0.000	0.000	0.000	0.000	0.000	**0.954**
Social Care & Housing GF – New Schemes	0.565	1.628	1.628	0.628	0.628	0.000	**5.077**
Housing HRA – Continuing Schemes	9.670	2.980	0.000	0.000	0.000	0.000	**12.650**
Housing HRA – New Starts	16.225	14.209	17.679	16.640	18.725	27.127	**110.605**
EPCS – Continuing schemes	10.225	3.662	0.685	1.015	2.400	0.100	**18.087**
Strategic Pot– New Starts	21.169	5.164	134.415	4.367	4.780	0.927	**170.821**
TOTAL Expenditure	**130.618**	**105.445**	**222.041**	**62.251**	**97.509**	**100.429**	**718.294**

Summary of Capital Programme

9.18 Table 11 shows a summary of the capital financing position over the medium-term period and the expenditure allocated in the Capital Programme. This shows that the Council's current capital expenditure needs can be met over the medium term through the phasing of resources.

9.19 A number of schemes are currently either partially or wholly unfunded within the Medium Term Capital Programme, these schemes are highlighted at the bottom of each service area in **Annex N**. The unfunded schemes are not included in the capital expenditure shown in Table 10, and total £10.8m over the next 5 years; therefore any surplus resource identified in the medium term will initially require prioritisation to address these demands.

Table 11: Capital Resources and Expenditure over MTFP Period

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 Onward £m	TOTAL £m
Capital Resources (Table 9)	**(167.737)**	**(93.404)**	**(219.892)**	**(73.110)**	**(86.237)**	**(78.342)**	**(718.722)**
Capital Expenditure (Table 10)	**130.618**	**105.445**	**222.041**	**62.251**	**97.509**	**100.429**	**718.294**
NET POSITION (surplus)/ deficit	**(37.119)**	**12.041**	**2.150**	**(10.859)**	**11.272**	**22.087**	**(0.428)**
Cumulative Position (surplus)/ deficit	**(37.119)**	**(25.078)**	**(22.928)**	**(33.787)**	**(22.515)**	**(0.428)**	

9.20 S106 funding is a key resource in supporting the Council to mitigate the impact of growth, with the reductions in government funding, the use of S106 funding must be managed carefully to address both local and strategic needs.

9.21 Developer Contributions (S106) are included in the Capital Programme or to fund projects which meet the specification outlined in the S106 agreement. The current position for S106 resources is as follows:

Table 12: S106 Position

	Funding Available £m	Allocated to Projects £m
Total S106 cash balances	(30.464)	
Cash allocated in MTCP but not yet received	(16.422)	
S106 Allocated in 2012/13 Capital Programme		2.034
S106 Allocated in Medium Term Capital Programme		23.295
S106 Currently allocated to revenue projects		4.086
Total	(46.886)	**29.415**
S106 currently being allocated		***(17.471)***

9.22 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.

9.23 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 are intended.

9.24 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. In some areas work is still ongoing to identify the individual scheme and future allocations will be updated as individual schemes are developed.

9.25 In total, £17.5m is shown in the above table as ‘to be allocated’. Work is being undertaken with service groups to ensure that projects are developed to allocate S106 funding within the capital programme. The programme will be amended as these schemes come forward for delivery.

Tariff

9.26 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 we 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 MKC.

9.27 The draft capital programme includes resourcing of various projects from the Tariff. **Annex M** shows a breakdown of the tariff resource allocation for 2014/15 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.

9.28 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.

Long-term Investment Needs

9.29 The Council has developed, in conjunction with the Local Investment Plan, a 15 year programme of investment needs and potential funding. This is detailed in the Medium Term Financial Plan report **Annex C**.

9.30 This shows available resources in 2016/17, 2017/18 and 2018/19 but even allowing for New Homes Bonus totalling £31m allocated in the programme to schemes such as new schools in the expansion areas and major transport projects there remains significant shortfalls from 2019/20 onwards. While the position will change in the next few years, it is unlikely this shortfall will be addressed fully. The decisions made in relation to the 2014/15 Capital Programme should be taken in the context of this likely shortfall.

10. THE PRUDENTIAL CODE

Background

10.1 The Prudential Code for Capital Finance in Local Authorities (the Code) was implemented in 2004/05. This is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects without any imposed limit as long as they are affordable, prudent and sustainable. The Code allows the Council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

10.2 The Code was updated in 2011 without fundamental change for this Council, but for the inclusion of a new indicator to monitor the Housing Revenue Account (HRA) debt cap as a result of HRA Reforms.

10.3 A further amendment was issued in November 2012 whereby the indicator for prudence has been amended from comparing net debt to gross debt against the capital financing requirement. This will restrict authorities' ability to borrow in advance of need.

10.4 The Council's capital investment is limited by the Code's requirement that debt is sustainable, affordable and prudent and the overarching requirement that local authorities set balanced revenue budgets. The Government also has reserve powers to restrict aggregate local authority borrowing for national economic reasons and to intervene to restrict individual local authority borrowing.

10.5 The Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators which, for housing authorities, are separated into HRA and non-HRA elements. These indicators are mandatory but can be supplemented with local indicators if this aids interpretation. The indicators are purely for internal use by the Council because any comparisons with other Councils would not be meaningful.

10.6 The paragraphs below set out MKC response to the Code.

Acceptance of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code

10.7 This Council hereby confirms that it has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the TM Code).

10.8 The TM Code and associated guidance notes were updated in 2011 without fundamental change for this Council. One clarification that should be noted is the distinctions between the terms debt and borrowing for the purposes of the Prudential Code:

- Debt – refers to borrowing (see below) plus any other long-term liabilities (liabilities outstanding under credit arrangements as defined by statute, such as finance leases).
- Borrowing – refers to actual external borrowing (loans).

HRA Reforms

10.9 The Council has adopted a single pool approach to allocating debt charges between the General Fund and HRA. A single pool approach is a continuation of previous arrangements, whereby the Council manages its overall debt as a single portfolio and apportions costs to the General Fund and HRA at a consolidated rate in proportion to the debt held by each.

Capital Expenditure and the Capital Financing Requirement

10.10 The Code requires local authorities to calculate the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for a capital purpose. Movement between years will be influenced by in-year capital expenditure and provision for repayment of debt.

10.11 The Prudential Code allows local authorities to undertake unsupported borrowing so they can deliver projects such as spend to save schemes or take decisions to direct resources from revenue to capital to enable service enhancements. However, before using unsupported borrowing, the authority must be satisfied that the additional borrowing costs can be afforded within future years' budgets.

10.12 Table 13 below shows the resulting forecast Capital Financing Requirement for the next five years based on the Medium Term Capital Programme.

10.13 The substantial increase in the Capital Financing Requirement (CFR) in 2016/17 is due to the Residual Waste Treatment Facility capital scheme.

Table 13: Capital Financing Requirement 2013/14 to 2018/19

	2013/14 Latest £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
CFR – Non-HRA	277.547	290.989	287.397	415.037	411.592	410.059
CFR – HRA	253.790	253.693	253.597	253.501	253.404	253.308
Total CFR	**531.337**	**544.682**	**540.994**	**668.538**	**664.996**	**663.366**
Net CFR movement	-	13.345	(3.688)	127.544	(3.542)	(1.630)

Limits to External Debt Activity

10.14 The first key control over the Council's activity is to ensure that over the medium term, gross debt is only for a capital purpose. To ensure this is the case the Council needs to ensure that gross external debt does not, except in the short term, exceed the total of the capital financing requirement for any year, either the current or future forecasts.

10.15 The table below shows the forecast gross debt requirement, compared to the forecast capital financing requirement. This shows that all debt is to support capital expenditure, and therefore meets the requirements of the Prudential Code.

Table 14: Gross Debt Compared to Capital Financing Requirement

	2013/14 Latest £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
Gross Debt	431.914	505.944	522.638	550.392	578.053	570.616
CFR (Table 13)	531.337	544.682	540.994	668.538	664.996	663.366

10.16 The Council will be recommended to approve the Authorised and Operational Limits which have been calculated on the basis of anticipated cash flow and the forecast Capital Financing Requirement, with an additional margin for the Authorised Limit to allow for unlikely (but possible) scenarios affecting the timing of grant receipts, Council Tax collection and capital receipts. The limits for other long term liabilities allow for the accounting changes to leases brought about by the implementation of International Financial Reporting Standards.

10.17 The Prudential Indicators that assist in exercising control over the overall level of debt which supports capital investment are:

- Authorised Limit – This represents the limit beyond which debt is prohibited. It reflects the level of debt which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum debt need with some headroom for unexpected movements. This is the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Table 15: Authorised Limit for External Debt

	2013/14 Latest £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
Borrowing	577.000	585.000	581.000	709.000	705.000	703.000
Other long term liabilities	10.000	10.000	10.000	10.000	10.000	10.000
Total	587.000	595.000	591.000	719.000	715.000	713.000

- Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual debt could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Table 16: Operational Boundary for External Debt

	2013/14 Latest £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
Borrowing	557.000	565.000	561.000	689.000	685.000	683.000
Other long term liabilities	10.000	10.000	10.000	10.000	10.000	10.000
Total	567.000	575.000	571.000	699.000	695.000	693.000

- HRA Limit on Indebtedness – This indicator considers the HRA debt capital financing requirement against the debt limit imposed under HRA Reforms.

Table 17: HRA Limit on Indebtedness

	2013/14 Latest £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m
HRA Debt Limit	259.292	259.292	259.292	259.292	259.292	259.292
CFR – HRA (Table 13)	(253.790)	(253.693)	(253.597)	(253.501)	(253.404)	(253.308)
Variance	5.502	5.599	5.695	5.791	5.888	5.984

- Actual External Debt – This indicator considers actual external debt at a single point in time and hence is only directly comparable to the authorised limit and operational boundary at that point in time; as such this indicator shall form part of the treasury management reporting process.

10.18 The Autumn Statement included an announcement on the partial lifting of the HRA debt limit with an additional total provision available of £150m per year over 2015/16 and 2016/17, on a competitive basis by bidding process. Should the Council be successful in bidding for additional HRA borrowing capacity, this indicator will be adjusted accordingly.

Affordability Prudential Indicators

10.19 Within the Prudential Code framework, indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances. This section sets out the required affordability indicators based on the recommended budget and capital programme and recommends that the Council approves each indicator.

- Actual and estimates of the ratio of financing costs to net revenue stream - This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue streams, for housing and non-housing services. The higher ratio for the HRA reflects the fact that borrowing costs on past capital expenditure on council housing represent a significant proportion of the HRA revenue budget.

10.20 The figures used for General Fund net revenue funding are based on the Revenue Budget being recommended to the Council and are therefore subject to change with any amendments to the Final Budget. If applicable, updated figures will be provided to Cabinet and Council.

Table 18: Ratio of financing costs to net revenue funding

	2013/14 Latest %	2014/15 Forecast %	2015/16 Forecast %	2016/17 Forecast %	2017/18 Forecast %	2018/19 Forecast %
Non-HRA	10.46	11.07	12.54	13.44	16.01	18.52
HRA	42.09	42.53	43.59	43.55	42.73	42.23

10.21 The Council will be recommended to approve indicators showing the ratio of financing cost to revenue funding for both the General Fund and the HRA.

- Estimates of the incremental impact of capital investment decisions on the Council Tax - This indicator identifies the trend in the net revenue cost of proposed changes in the recommended Capital Programme compared to the Council's existing commitments and current plans. Although the indicator is expressed as an amount of Council Tax this does not mean that the capital investment decisions will directly result in changes to the Council Tax level. The results reflect any incremental impact of prudential borrowing that is to be met directly from revenue budgets. Revenue budgets are prepared and set including a consideration of the impact of capital decisions.

Table 19: Incremental Impact of Capital Investment Decisions on Band D Council Tax

	Budget 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Full Impact of **Previous** Capital Investment Decisions on Council Tax – Band D	£5.03	£17.60	£64.18	£144.16	£151.15
Full Impact of **Latest** Capital Investment Decisions on Council Tax – Band D	£5.39	£18.73	£65.45	£136.75	£143.76
Incremental Impact of **Latest** Capital Investment Decisions on Council Tax – Band D	£0.36	£1.13	£1.27	(£7.41)	(£7.39)

10.22 This indicator measures the incremental change in General Fund financing costs (divided by Tax Base) of unsupported borrowing between the 2013-18 capital programme (the basis of prudential indicators calculation last year) and the latest 2014-19 capital programme.

10.23 Effectively it is measuring the difference between the original and latest capital programmes, to show the incidental financing impact on the General Fund, spread over the Tax Base.

10.24 The minor changes in 2014/15 to 2016/17 reflect the slight reprofiling of the highways infrastructure prudential borrowing estimates.

10.25 The negative figures for 2017/18 & 2018/19 reflect the change in Minimum Revenue Provision (MRP) treatment on the Waste scheme and subsequent reduction in MRP charge – originally the full £129.2m was to be repaid on a straight line basis over 25 years, but this has since been amended to split the build cost over the estimated useful life of the components (£38m over 50 years, £91.2m over 25 years).

10.26 The Council is recommended to approve the Prudential Indicator showing the incremental impact of capital investment decisions on the Band D Council Tax (Table 19 above).

- Estimates of the incremental impact of capital investment decisions on Housing Rent levels - This indicator identifies the trend in the cost of proposed changes in the housing capital programme compared to the Council’s existing commitments and current plans, expressed as a change in weekly rent levels. The results reflect the incremental impact of any prudential borrowing that is to be met directly from housing rents.

Table 20: Incremental impact of capital investment decisions on weekly housing rents

	Budget 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
Full Impact of **Previous** Capital Investment Decisions on Housing Rents	£0.01	£0.01	£0.00	£0.00	£0.00
Full Impact of **Latest** Capital Investment Decisions on Housing Rents	£0.02	£0.03	£0.00	£0.00	£0.00
Incremental Impact of **Latest** Capital Investment Decisions on Housing Rents	£0.01	£0.02	£0.00	£0.00	£0.00

10.27 The HRA financial plan ensures that the capital programme is fully funded by available contributions from the HRA, whilst maintaining a minimum balance. This indicator therefore reflects only the lost opportunity cost of investment interest income resulting from increased revenue contributions between the 2013-18 Capital Programme (basis of prudential indicators calculation last year) and the latest 2014-19 capital programme.

10.28 The Council will be recommended to approve the Prudential Indicator showing the incremental impact of Capital Investment decisions on housing rents (Table 20 above).

Treasury Management Prudential Indicators and Limits on Activity

10.29 The Council's Treasury Management Strategy is attached as **Annex O**.

10.30 In addition to those indicators set out above, the following treasury indicators form part of the Treasury Management code. The purpose of these Prudential Indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

10.31 However, if these indicators are set to be too restrictive they will impair the opportunities to reduce costs.

- Upper Limits on the proportion of net debt compared to gross debt – This indicator is intended to have the effect of highlighting where an authority may be borrowing in advance of need. However many factors can influence the results of this indicator than simply borrowing in advance of need, such as increases in capital receipts.

Table 21: Upper Limits on the Proportion of Net Debt Compared to Gross Debt

	Budget 2014/15 %	Forecast 2015/16 %	Forecast 2016/17 %	Forecast 2017/18 %	Forecast 2018/19 %
Upper Limit	100.00	100.00	100.00	100.00	100.00

- Upper limits on variable rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Table 22: Upper Limits on Variable Rate Exposure

	Latest 2013/14 £m	Budget 2014/15 £m	Forecast 2015/16 £m	Forecast 2016/17 £m	Forecast 2017/18 £m	Forecast 2018/19 £m
Upper Limit	30.000	30.000	30.000	30.000	30.000	30.000

- Upper limits on fixed rate exposure – Similar to the previous indicator, this covers a maximum limit on fixed interest rates based on net debt.

Table 23: Upper Limits on Fixed Interest

	Latest 2013/14 £m	Budget 2014/15 £m	Forecast 2015/16 £m	Forecast 2016/17 £m	Forecast 2017/18 £m	Forecast 2018/19 £m
Upper Limit	557.000	565.000	561.000	689.000	685.000	683.000

- Total principal funds invested for longer than 364 days – These limits are set in order to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

Table 24: Upper Limits on Investments for Longer than 364 days

	Latest 2013/14 £m	Budget 2014/15 £m	Forecast 2015/16 £m	Forecast 2016/17 £m	Forecast 2017/18 £m	Forecast 2018/19 £m
Upper Limit	30.000	30.000	30.000	30.000	30.000	30.000

- Maturity structures of borrowing – These gross limits are set in order to reduce the Council's exposure to large fixed rate sums falling due for refinancing. Both upper and lower limits are required.

Table 25: Lower and Upper Limits for the Maturity Structure of Borrowing for 2014/15

	Lower limit	Upper limit	Borrowing *	
	%	%	£m	%
Under 12 months	0	15	25.000	5.79
1-2 years	0	15	19.150	4.43
2-5 years	0	50	8.351	1.93
5-10 years	0	50	40.903	9.47
Over 10 years *	50	100	338.510	78.38
			431.914	**100.00**
** Breakdown of borrowing held in excess of 10 years*				
10-20 years	*Set with reference to all loans Over 10 years (above)*		*73.000*	*16.90*
20-30 years			*95.150*	*22.03*
30-40 years			*60.000*	*13.89*
40-50 years			*110.360*	*25.56*
				78.38

* Borrowing Portfolio as at January 2014 amended for:

- LOBO loans are classified in the relevant range of the next lender option date (£5m classified as under 12 months, £10m classified as 2-5 years).

10.32 It is not expected that there will be any concerns in complying with these indicators. Actual performance against indicators is reported quarterly though the Budget Monitoring process.

10.33 The Council will be recommended to approve the Treasury Prudential Indicators as set out in the above tables.

11. HOUSING REVENUE ACCOUNT

11.1 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 (which supports other services).

11.2 The Council, at its meeting on 15th January 2014, approved the HRA budget and an average rent increase of 3.5%, which equates to an average rent increase of £2.97 per week for tenants. The average rent for 2014/15 would therefore be £87.70 per week.

11.3 The level of prudent HRA reserve has been assessed at £4.5m to cover any unforeseen circumstances. The budget agreed by Council forecast that HRA balances will remain at £4.5m.

12. DEDICATED SCHOOLS GRANT

12.1 The Dedicated Schools Grant (DSG) supports individual schools and academies and other pupil related expenditure managed by Children and Families Service Groups. Like the HRA it is ring fenced and can only be used on providing finance to schools and services as delivered in. The School and Early Years Finance Regulations 2013 define the services that can be supported by the DSG. The DSG is calculated based on pupil numbers on the roll of both schools and academies, although funding academies receive their actual funding direct from the Education Funding Agency.

12.2 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 2013.
- The early years block is calculated based on the number of early years pupils on roll at specific census dates in January 2014 and January 2015 and will not be confirmed until after the end of the financial year, so budget allocations to providers will be based on forecast income.
- The high needs block is based on historic cost adjusted for any agreed additional places, and is not expected to be confirmed until March 2014. A summary of the estimated 2014/15 DSG is set out in the table over the page:

Table 26: Estimated Dedicated Schools Grant 2014/15

	2014/15 £m
DSG Income:	
Schools Block	167.120
Early Years Block	15.558
High Needs Block	28.488
Total Income	**211.166**
DSG Expenditure:	
Individual School Budgets	164.417
Central Spend - LA	0.852
Central Spend - Schools	1.651
Early Years Block	15.407
High Needs Block	29.727
Total Expenditure	**212.054**
In-year Deficit	0.888
Estimated Balance Bfwd 1/4/14	(1.302)
Estimated Balance Cfwd 31/3/15	**(0.414)**

12.3 The table shows that the in-year deficit of £0.9m can be funded by balances; this will reduce the working balance on the DSG to £0.4m.

12.4 The DSG has not received any inflationary increase since 2011/12, so it has not been possible to increase the unit rates in the funding formulae for schools and early year's providers. To reduce the in-year deficit it is necessary to reduce the lump sum allocation in both the primary and secondary sectors. In addition, the secondary age weighted pupil unit has been reduced to maintain the balance of funding between the primary and secondary sectors. There are no other changes in the funding formulae unit rates which are set out in **Annex F**. There are no changes to the funding formulae factors in 2014/15. The level of the DSG does not effect the level of Council Tax.

13. BUDGET CONSULTATION

13.1 From 29th November to the 15th February, the Council has consulted on the proposals set out in the Draft Budget. This consultation was carried out through a number of communication routes including the Council website, direct mailings to stakeholders, copies in libraries and Council offices and through notices in newspapers. There has also been public scrutiny of the Draft Budget through the Budget Review Group.

13.2 The general response to the consultation has been quite limited. A summary of responses can be found in **Annex P**.

13.3 The outcome of this consultation has been considered by the Cabinet in developing this final Budget proposal.

14. ROBUSTNESS AND RISKS

14.1 A critical element of the Medium Term Financial Plan and Budget is to ensure that the financial consequences of risk are adequately reflected in the Council's finances. In preparing the 2014/15 Budget, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report or the MTFP report. Where the impact is not known, this has been highlighted as a risk.

14.2 The General Fund balance at the 31st March 2014 (including the risk assessed contribution of £1.5m) is forecast to be adequate to meet the Council's financial needs in 2014/15. This view takes account of the reserves included in the Council's latest audited Accounts as at 31st March 2013; 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 2014/15 Budget.

15. OVERALL BUDGET SUMMARY

15.1 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. They affect every household and service user and the manner in which decisions must be made is closely prescribed by law. **Annex A** of this report sets out the relevant legal considerations which will affect the Council Budget and Council Tax decisions. Members should note these requirements as part of approving the Final Budget. Members will be required to give careful consideration to the information set out in the Final Budget Report and its annexes.

15.2 In addition, the Local Government Act 2003 places a specific personal duty on the S151 officer (Corporate Director Resources) to report to the Council on the robustness of the budget and the adequacy of reserves. Members are advised that due regard has been given to the requirements of the Local Government Act 2003 during the current budget process. Specific reference is made to the adequacy of General Fund and HRA reserves.

15.3 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 Review Group have also scrutinised the budget process and challenged both Cabinet Members and officers.

15.4 All reasonable steps have been taken to ensure that this Budget is robust. However, it is inevitable there will be a number of risks around the delivery of the significant level of savings required. A risk register has been maintained throughout the budget process to highlight potential risk areas (see **Annex H**).

15.5 The scale of the changes required as a result of the significant reduction in Government funding will increase the risk to the overall delivery of the budget. As a result the Corporate Director Resources has recommended maintaining an additional level of reserve over and above the minimum level of general fund reserves to mitigate some of the high risk areas.

16. ANNEXES

The following **Annexes** are appended to this report:

Legal Framework	**Annex A**
Budget Pressures	**Annex B**
One-off Budget Pressures	**Annex C**
Budget Savings	**Annex D**
One-off Budget Savings	**Annex E**
Dedicated Schools Grant	**Annex F**
Parish Precepts: Council Tax excluding Police and Fire Total Council Tax	 **Annex G1** **Annex G2**
Budget Risk Register	**Annex H**
Recharges Methodology	**Annex I**
Fees and Charges: Exemptions to the Income Policy Additional Concessions	**Annex J**
Detailed Fees and Charges for 2014/15	**Annex K**
2014/15 Parking Account	**Annex L**
2014/15 Tariff Resource Allocation	**Annex M**
Capital Programme 2014/15 to 2018/19	**Annex N**
Treasury Management Strategy & Policy	**Annex O**
Summary of Budget Consultation	**Annex P**

17. IMPLICATIONS

Policy

17.1 The Council's Budget and Medium Term Financial Plan 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

17.2 A detailed budget risk register is available at **Annex H** to this report.

Carbon and Energy Management

17.3 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

17.4 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.

17.5 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

17.6 An Equality Impact Assessment was conducted on all 138 savings proposals of which 12 were considered as being "significant changes". Of these:

- Two (2) assessments require no major changes to the decision.
- In six (6) areas adjustments have been/will be made to remove barriers identified by the EIA or to better promote equality. Proposed adjustments will remove the barriers identified.
- In four (4) areas the recommendation is to continue despite having identified some potential for adverse impact or missed opportunities to promote equality. In this case, the justification is included in the EIA and is in line with the duty to have 'due regard' and reasons are provided. Consideration has been made to whether there are sufficient plans to reduce the negative impact and/or plans to monitor the actual impact.

- There are no areas where a recommendation has been given rethink the decision – where the impact is critical for equality for one or more protected groups.

17.7 The table below reflects where adjustments have been made or being considered to remove barriers identified by the EIA or to better promote equality. The proposed adjustments will remove the barriers identified.

Table 27: Summary of Adjustments Made/Being Made

Area of Work	Adjustment Made/Being Made
Bed & Breakfast	Permanent housing is the best solution to tackling the problems of homelessness. This will positively advance equality through providing homeless households with permanent accommodation which is one of the Council's Equality Objectives. Adjustments have been made through a new policy to purchase existing properties to tackle homelessness.
Connexions	The redesign of commissioned services is likely to lead to a better targeting of services to vulnerable young people.
Youth Grants	Adjustments have resulted in reductions in grants being phased to allow organisations to access alternative funding sources.
Music & Adult Learning	A new service, the "Community Learning Service" is being established. In the adoption of this new service model, consideration has been given to how various groups are affected. Monitoring will pick up early warning signs if a particular group is unfairly affected, so that adjustments can be made.
Community Transport	Consultation has revealed that the present arrangements are unloved by most users, unsatisfactory and will not meet the needs of the disability community as a whole. There will adverse impact to some users in proposals, especially those who have a limited means of income, however alternative transport arrangements will be supported and the best solution for many of the users who might be adversely affected is better mainstream services.
Community Mobilisers	There is a review pending and therefore the type and nature of impact is uncertain and how this would affect different groups unclear. In recognition of this an adjustment has been made to ensure that the saving falls beneath the "significant" level.

17.8 The table below outlines those areas where the recommendation is to continue despite having identified some potential for adverse impact or missed opportunities to promote equality. In these cases, the justification is included in the EIA and is in line with the duty to have 'due regard' and reasons are provided.

Table 28: Summary of the justification for accepting an Adverse Impact

Area of Work	Summary of Adverse Impact Justification
Neighbourhood Working	The risk to the duty to foster good community relations is considered to be small. Indeed perception of good community relations has been increasing. The Community Regeneration Programme is assessing this in the light of greater regeneration opportunities.
Neighbourhood Services	Whilst this service has a role in the building of community relations and in working to build community development. This work will continue through opportunities presented by parish and town councils, regeneration and community support police teams.
Community Mobilisers	There is a review pending and therefore the type and nature of impact is uncertain and how this would affect the different groups is unclear.
Changes to staff terms and conditions	Adjustments in pay policies do adversely affect a sizeable proportion of staff. However, analysis of pay shows that, as should be expected in an exercise designed to comply with equal opportunities legislation, all the gender grade basic pay gaps narrow under the Milton Keynes Council grading and pay structure proposals for single status employees.

Further information on the impact on staff and the detailed assessments can be found at: **http://j.mp/EqIA2014-bud1**

Yes	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder

Background Papers:

Provisional Local Government Finance Settlement 2014/15, published by DCLG.

The Council Tax Base Report as approved by Cabinet on 18th December 2013.

The Medium Term Financial Plan (MTFP) 2014/15 to 2018/19 on this agenda.

Budget Review Group Meeting papers.

The Local Council Tax Reduction Scheme for the financial year 2014/15, on the basis of the Scheme as adopted by the Council on 12th December 2012.

The Housing Revenue Account Budget and Housing Rents approved by Council on 15th January 2014.