ITEM **4**

Wards affected:

All Wards

CABINET

5 DECEMBER 2017

DRAFT COUNCIL BUDGET 2018/19 AND MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

Responsible Cabinet Member:	Councillor Middleton – Cabinet member for Resources and Innovation
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Executive Summary:

This report recommends the draft Revenue Budget 2018/19 and latest Medium Term Financial Forecast 2018/19 to 2021/22, draft Capital programme for 2018/19 to 2021/22 and the draft Housing Revenue Account Budget 2018/19 for the approval of the Cabinet.

The details in this report have been prepared in accordance with the framework set out in the Financial Sustainability Plan (FSP) approved by Cabinet in July 2017.

The draft Revenue Budget includes the recommendation for a 1.99% Council Tax increase; plus a 3% council tax levy for the Adult Social Care precept, which will contribute to the costs of providing adult social care services, where there are substantial extra demands on these services now and there will be into future years as well.

The draft Revenue Budget provides £11.9m of extra money to meet additional demand for our critical services in particular:

1 - **Housing** – despite having faced a fivefold increase in people needing temporary accommodation in the last five years, we have in recent months reduced use of Bed & Breakfast Hotels to near zero. The draft budget provides for additional capacity to continue reducing the costs of homelessness, and the impending implementation of the Homelessness Reduction Act, and reflects the reduction of £900k in government funding for homelessness.

2 - **Adult Services** – in the last year there has been a 24% increase in assessments, and the size of care packages continues to increase across adults due to the level of complexity of need. There is a forecast increase of 40% in young adults requiring support in Learning, Disability and Autism. The Milton Keynes older population is expected to continue to increase by 4% per year. The pressures will be partially mitigated through reshaping and modernising services, including expanding the use of technology.

3 - **Children's Social Care** – The Milton Keynes child population is increasing at double the UK average. In the last two years there has been a 20% increase in the number of referrals, resulting in increased demand for support across children's social care services. This together with an increase in the complexity of needs of young people continues to put a pressure on the budget.

In addition to this extra demand on our critical services, we face a further £4.9m Central Government funding cut as shown in our financial forecasting model for the next four years at annex H.

To offset this, the Council is proposing £8.3m of service budget cuts and £2.3m of additional income proposals, which have been developed in accordance with the Cabinet's key principles of 'smarter', 'sustainable' and 'different' and to reflect the priorities in the Council Plan.

Finalisation of the draft budget is also still subject to further assessment of 3 material known risks which cannot at this stage be quantified with sufficient confidence (para. 10.6).

The Capital Programme includes significant investment in four new school builds and three school expansions, highways improvement works and contributions to the MK Gallery and health facilities. Although it should be noted that there remains a substantial medium term shortfall in the city's future infrastructure, owing to the rapid growth and expansion of our city.

The Housing Revenue Account (HRA) Budget includes the required 1% rent reduction and identifies resources for new build housing and regeneration.

1. RECOMMENDATIONS

1.1 The draft Revenue Budget 2018/19 (annex I) and latest MTFS forecast for 2018/19 to 2021/22 (**Annex H**) be approved as a basis for consultation with the public and our stakeholders.

1.2 That the provisional Council Tax at Band D of £1,328.89 for the Milton Keynes element of the Council Tax be agreed for consultation, a 4.99% increase on the previous year. This includes the additional 3% adult social care precept offsetting some of the additional costs arising from the increase in demand for adult social care.

1.3 The estimated position for the Dedicated Schools Grant and the planned consultation with schools and the Schools Forum for 2018/19 be noted.

1.4 The draft Housing Revenue Account Budget, including the required 1% rent decrease, be approved as a basis for consultation.

1.5 In line with the requirements of the Local Government Act 2003, it be noted that the Corporate Director, Resources is of the view that the draft General Fund Budget and Housing Revenue Account is robust, subject to a further review of risks (para. 10.6), and the forecast reserves are adequate, see annex E.

1.6 The proposed fees and charges for 2018/19, which are exceptions to the Income and Collection Policy, be noted (**Annex G**).

1.7 The equalities impact assessments for the draft Revenue Budget 2018/19, as set out in paragraph 13.6 be noted.

1.8 The draft forecast parking surplus be noted (**Annex J**).

1.9 The draft Capital Programme for 2018/19 to 2021/22 be approved (**Annex K**).

1.10 The resource allocation for the draft Tariff Programme be noted (**Annex L**).

2. INTRODUCTION

2.1 The Council's Financial Sustainability Plan (FSP) of July 2017, set outs:

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

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

3. DRAFT REVENUE BUDGET 2018/19

General Fund Resources - Ongoing

3.1 The Council is forecasting to receive £11.5m in Revenue Support Grant (RSG) in 2018/19, which equates to a 34% cut in the £17.4m of funding we received in 2017/18.

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

3.3 The Council estimates it will retain £49.1m of the £157m of Business Rates collected during 2018/19; of this amount £44.6m is the Council's Baseline Funding Level; the remaining £4.5m represents the estimated retained amount of funding since 2013/14 resulting from business rate growth (net of levy). This compares with £47.1m that we forecasted we will receive in 2017/18.

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

3.5 The current 50% business rates retention system is expected to be reset in 2020/21. However, given the uncertainty over the future shape of the business rates system, the impact of the reset remains uncertain. This represents a risk to the level of income that the Council may retain on current growth levels which are in the base budget.

3.6 Total Government funding is estimated at £72.0m for 2018/19, compared to £76.9m from 2017/18, a reduction of 6%.

3.7 The Government will provide individual local authority funding allocations in December 2017, as part of the Provisional Financial Settlement, which will then be later confirmed in February 2018. The Council submitted its Financial Sustainability Plan to the Department of Communities and Local Government in October 2016 to allow us to access the four-year settlement for RSG and Tariffs on Business Rates. The draft budget has been based on there being no change to this position.

Council Tax

3.8 The ability for local authorities to raise a new 'Adult Social Care Council Tax Precept' was announced by the Chancellor as part of the 2015 Autumn Statement. This allowed local authorities to raise their Council Tax by an additional 3% in 2017/18 and 2018/19 (or 2% across each of the three years 2017/18 to 2019/20), over and above the current 1.99% Council Tax referendum threshold, as long as the additional income generated, supports Adult Social Care expenditure.

3.9 The Council is committed to providing the best social care and safeguarding services possible to its elderly and vulnerable citizens, therefore is planning to increase its Council Tax Charge by 4.99%; of which 3% of the increase in Council Tax income generated will be invested directly within Adult Social Care service provision.

3.10 The Council is currently spending £64m per year on Adult Social Care and Health Services. Over the next four years the current forecast identifies a need to spend a total of £10.2m extra (on an ongoing basis), on Adult Social Care and Health Services, excluding pay inflation. It is also likely these pressures will continue to increase in the medium term. Against this, the additional Council Tax adult social care precept is expected to create £6.1m of additional income in total across 2017/18 and 2018/19, so while helpful, the Council still needs to redesign services and generate efficiencies to ensure these services are sustainable for the medium term.

3.11 Council Tax income is anticipated to increase by £6.594m in 2018/19; this total comprises £5.238m of additional income due to a 4.99% increase to the charge (of which £3.150m will fund Adult Social Care service provision), and £1.356m of income as a result of the growth in the number of homes in Milton Keynes and other technical adjustments.

3.12 We are currently forecasting a surplus on the Collection Fund. The Council's share is expected to be £3.400m. To help manage the future volatility of rates income through the reset this funding will be transferred into the Business Rates Equalisation Reserve.

Ongoing Revenue - Key Assumptions

3.13 In summary, the following assumptions have been made to determine the likely resources available in 2018/19:

- An increase in the number of Band D properties of 940 homes, based on current projections.

- Government funding through Revenue Support Grant as per indicative four-year settlements issued in 2015 and Retained Business Rates from local estimates.
- Education Services Grant has been phased out over recent years and it is assumed will be stopped altogether by 2018/19.
- A 4.99% increase in Council Tax, taking the Milton Keynes Council precept to £1,328.89 for a Band D property.
- Public Health grant has been assumed to reduce by 2.5% in line with the Department of Health announcements.
- New Homes Bonus proposals are currently under consideration by the Secretary of State which could materially impact the level of award in 2018/19. Given the current uncertainty, proposals about the use of any bonus will be kept under review and referenced as part of the Final Budget Report in February 2018.

Table 1: Summary of Forecast Revenue Resources for 2018/19

Revenue Resources	**£m**
Revenue Support Grant	(11.476)
Retained Business Rates	(49.100)
Council Tax (including parish precepts)	(117.198)
Public Health Grant	(11.400)
Total Ongoing Resources	**(189.174)**

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

General Fund Expenditure

3.15 In determining the forecast draft Revenue Budget expenditure for 2018/19 the following assumptions have been made:

Table 2: Forecasting Assumptions 2018/19

	2018/19
General Pay Inflation	2.0%
Cost of salary increments	1.0%
General Non-Pay Inflation*	0.0%
Fees and Charges Inflation (July Consumer Price Index)	2.6%

* assumes must be contained within existing budgets

Exemptions to the 2.6% increase in fees and charges are listed in **Annex G**.

3.16 Contractual inflation is based on existing contract agreements. Some of the larger contracts are detailed in Table 3 overleaf.

Table 3: Contractual Inflation Assumptions 2018/19

	2018/19
SERCO – Waste Collection - DTI Indices	3.82%
SERCO – Street Cleansing - DTI Indices	3.82%
SERCO – Food and Garden Waste - DTI Indices	3.82%
SERCO – Landscape - DTI Indices	2.77%
Ringway - highways works	2.11%
Ringway - street lighting works	2.56%
Excel Care	2.47%
Extracare	3.49%

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

3.18 The Budget Scrutiny Committee have reviewed the pressures and their report is included as annex D, together with Cabinet's response to their recommendations.

3.19 The pressures identified in the draft Budget 2018/19 are summarised in Table 4.

Table 4: 2018/19 Budget Pressures

Pressures by Category	**£m**
Demography	9.186
Legislative	0.733
General	4.787
Total Ongoing Pressures (See annex A)	**14.706**
One-off Budget Pressures (Service Groups)	0.335
One-off Budget Pressures (Corporate)	0.010
Total One-off Budget Pressures (See annex B)	**0.345**

3.20 On-going Budget pressures of £14.706m will be funded from on-going resources, with a further £0.345m of one-off expenditure being funded from earmarked reserves. This approach will ensure that base budgets are not adjusted for one-off expenditure which is not ongoing.

3.21 All budget pressures that were agreed as 2017/18 Budget Amendments at Full Council in February 2017, including £64k for Wider Use Funding have been built into the 2018/19 draft base budget.

4. General Fund Budget Reductions/ Income

Strategy for Balancing the Budget

4.1 The combination of the increase in costs arising from an increase in both the cost and demand for services, and the significant cut in Government funding, means that the draft Budget 2018/19 needs to include service budget cuts and additional income which total £10.7m. The total saving we have had to make in 2018/19 is £13.7m, with £3m being met from headroom in our corporate capital finance budget, following a root and branch review of this budget.

4.2 Since 2011/12 to 2016/17, the Council has delivered £111m of cuts, and is currently delivering a further £19m of cuts in 2017/18, which means the choices for 2018/19 are far more difficult to identify and deliver and this will become more difficult into the medium term. The combination of continued Government funding cuts and significant increases in demand for services mean that the need for financial reductions will continue until at least 2021/22.

4.3 The Financial Sustainability Plan includes three key principles that underpin the financial medium to long-term plan as follows:

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

4.4 A summary of the budget reductions and income proposals are shown in Table 5. The detail of the individual budget reduction and income generation proposals is included in annexes C1 and C2.

Table 5: Budget Reductions/Income Proposals 2018/19

Savings by Key Principle	£m
Budget Reductions	
- Smarter	6.310
- Sustainable	0.867
- Different	1.160
	8.337
Income Generation Proposals	
- Smarter	1.379
- Sustainable	0.677
- Different	0.267
	2.323
Total ongoing budget reduction/income proposals (see annexes C1 and C2)	**10.660**

General Reserves

4.5 A review has been carried out and is included in **Annex E** which shows the level of risk exposure for the Council on known issues and the assessment of the level of General Fund Balances. This includes an allowance related to the implementation of Budget savings.

4.6 It should be noted that the Council has had to deliver £130m of financial pressures since 2011/12, this means the relatively less difficult cuts in services have all been taken and the proposals now being developed are more complex and challenging to deliver. This will increasingly become the case over the next four years to 2021/22, when funding is expected to continue to reduce and demand for services is likely to increase and as shown at **Annex H**, we still have a further £22.7m of cuts to make in order to balance our budgets over this period. Reserves can only be spent once, it is therefore important from a sustainability perspective that Councillors take account of the level of future risk, as well as the risk identified in the 2018/19 draft Budget.

4.7 The most significant additional risk across the MTFS four year period is a move to local government self-sustainability with the Government withdrawing their grant funding so that local government should be entirely funded through council tax, local raised fees and charges and retained Business Rates. The current system has shown that national Government announcements impact on local funding and there is substantial volatility in the business rates funding received through the impact of national and local appeals; pace of the Government's Valuation Office assessments for new business rates growth and the uncertainty of business growth generally. At present the Council can lose £11m of funding before any support from national Government through the "safety net" is available so it is important future risks are considered as part of the reserves strategy going forward. Relying on a volatile income stream to fund critical statutory services means the Council's ability to smooth peaks and troughs using reserves to prevent in year cuts, will become more critical.

4.8 The risk assessment carried out alongside the development of the draft Budget (**Annex E**), shows that the minimum prudent level of General Fund reserves is £15.6m.

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

4.10 The 2017/18 Budget is currently forecasting an overspend of £0.7m (period 7), following the use of £6.9m of one-off resources. The overall risk assessment (**Annex E**) therefore addresses the risk with the timing and delivery of budget reductions and additional income or other risks and issues which may arise during the financial year.

Earmarked Reserves

4.11 In addition to the General Fund and HRA working balances, the Council has created a number of earmarked reserves to enable it to meet a range of different policy objectives. These objectives are broken down into the following areas:

- To manage known financial risks;
- To enable the Council to invest in services to generate future savings as part of its budget strategy;
- To manage one-off expenditure which has allowed the Council to make on-going revenue savings;
- To build up funding to support delivery of large projects such as capital programme schemes;
- To manage known timing differences between the receipt of funding and the profile of expenditure; and
- To hold ring fenced balances for example, specific grants, trusts, school balances etc.

4.12 As part of the Council's approach to managing its budget it has been established practice to allow unspent revenue budgets to be rolled over by holding balances in a Budget Rollover Reserve. Over time this has become overly complicated and difficult to track. To ensure both transparency, simplify future management of reserves and aid reporting of reserves the practice is to be changed. Where by exception any revenue sum is to be held (rolled over) from a previous years underspend this will be held in its own designated reserve for an agreed specified time. This will be reported as part of the Council's routine financial reporting to Cabinet on reserves.

4.13 A full review of the Council's earmarked reserves has been carried out and reported to the Budget Scrutiny Committee, alongside the development of these budget proposals. Full details of this review are set out at **Annex F**.

Key Changes

- £175.327m of earmarked reserves were held at the 31 March 2017. This is currently projected to reduce to £137.419m by end of the current financial year and £135.024m at 31/03/19.
- All demand led reserves will be closed at the end of the current financial year and the balances transferred into the General Fund Working Balance.
- Also, 18 further earmarked reserves holding £13.295m have been merged to simplify and streamline accounting and reporting.
- All the reserves listed at annex F have been reviewed to ensure that they remain relevant, have clear objective(s) and where appropriate an expiry date has been shown as to when the funds should be fully utilised.

Fees and Charges

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

- Charges will increase annually, informed by the July consumer price index (CPI) forecast.
- Charges are based on the full recovery of cost.
- Concessions are only in place 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).

4.15 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.

4.16 The exemptions to the Income policy are outlined in **Annex G**.

Local Council Tax Reduction Scheme

4.17 On 7 November 2017, the Cabinet confirmed the current Local Council Tax Reduction Scheme (LCTRS) should remain in place for 2018/19. This will provide working age individuals a level of certainty about the support they will receive, and enables the Council to review the scheme to inform any proposed changes in the future. Continuing with this scheme would mean the maximum level of Council Tax support for working age claimants would be maintained at 80%.

4.18 A full Council decision is required to formalise the Cabinet approval and this decision is due to be made in January 2018. This draft Budget assumes this approval will be agreed.

4.19 On 7 November 2017, Cabinet also approved a total sum of £0.530m funding for town and parish councils in 2018/19 to partially offset the financial impact of the LCTRS on their council tax yield estimates.

Capital Financing Costs

4.20 As part of a review of the Council's Debt Financing budget; it has been possible to release an additional £3.000m into the base revenue budget since July 2017. The overall debt financing resources continue to show a surplus position in the short term. However, the surplus is before any impact is modelled on HRA debt repayment which would reduce this surplus. The HRA Business Plan in currently being developed after which a further review of the debt financing budget will be carried out to determine the appropriate level of funding including whether further resources can be released.

5. Summary of Draft Revenue Budget 2018/19 – 2021/22

5.1 The medium term financial forecast for 2018/19 to 2021/22 is detailed in **Annex H** and summarised in Table 6. The budget gap over the four years is £22.7m.

Table 6: Summary Draft Revenue Budget Position 2018/19 – 2021/22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Government Funding Adjustments	2.319	4.455	7.250	0.268
Other Funding Sources	(11.958)	(0.063)	(2.566)	(3.664)
Forecasting assumptions	4.402	4.396	4.508	3.521
Budget Service Pressures	14.706	3.699	3.190	3.545
Corporate Pressures	5.602	(3.300)	1.450	0.200
Reserves Technical Adjustment	(0.637)	0.000	0.000	0.000
Planned reduction to contingency budget	(0.774)	(0.377)	(0.484)	(0.168)
One-off Pressures	0.345	0.010	0.000	0.000
Total Pressures	14.005	8.820	13.348	3.702
Capital Financing Costs	(3.000)	0.000	0.000	0.000
Total Service Budget Reductions	(8.337)	(1.671)	(1.141)	(0.187)
Total Service Income Generation Proposals	(2.323)	(0.044)	(0.056)	(0.027)
Less Reserves applied to one-off pressures	(0.345)	(0.010)	0.000	0.000
Net Ongoing Position	**0.000**	**7.095**	**12.151**	**3.489**

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

5.3 However, this strategy does recognise that those services, in particular - Housing, Adult Social Care and Health and Children's Social Care which support the most vulnerable people in Milton Keynes are also facing significant demand pressures, therefore these anticipated pressures are funded in this draft Budget 2018/19 based on local trend data and demographic growth projections.

5.4 The draft 2018/19 Revenue Budget includes £13.973m of ongoing budget pressures and funding reductions, and £0.345m of one-off pressures, offset by £10.660m of budget reductions and income proposals, £3.000m of capital financing reductions and £0.345m of one-off funding.

5.5 The base budget position for the draft 2018/19 Revenue Budget is set out in **Annex I**. In addition to this base budget position, Service Groups will receive one-off budget pressures, as set out in **Annex B.**

6. PARKING ACCOUNT

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

6.2 As in previous years, the Council has estimated the likely income it will receive from car parking in 2018/19, the costs that are required to manage car parking, and has considered the need for additional car parking.

6.3 As a result of this process it has been identified that car parking is expected to generate a surplus in 2018/19, which will be transferred to the General Fund for use in accordance with section 55(d) of the Road Traffic Regulation Act 1984 to fund:

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

6.4 **Annex J** outlines the forecast parking surplus and the proposed use of this surplus as part of the draft Budget 2018/19.

7. CAPITAL PROGRAMME

Capital Resources

7.1 Table 7 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 July 2017 Financial Sustainability Plan. However, the key assumptions for the financing of the Capital Programme are:

- Children and Families Basic Need capital financing is based on confirmed allocations from the Local Government Finance Settlement for 2018/19 with a forecast for future years.
- Children and Families financing for the School Condition Allocation is based on indicative allocations for 2018/19.
- Adult Social Care and Transport funding assumed at 2017/18 levels as 2018/19 have not yet been confirmed.
- Housing funding is based on an estimated contribution from revenue to capital based on affordability within the Housing Revenue Account.
- No tariff or developer contributions have been assumed, except where specified in individual project appraisals.
- £6.7m of 2016/17, and £2m of 2017/18 New Homes Bonus has been allocated and will fund projects over the medium term, such as V4 Crossings, Investment in LED lighting, East West Rail and enhancements required for the Future Working Project.
- New Homes Bonus Funding had been set aside in previous years for various projects that are either no longer required or have been completed without using the full capital allocation. The funding totalling £0.852m was previously allocated to; implementation of the waste strategy, £1.42m, 5 Acres Nursing Home £0.800m, CIMDAS software £0.019m and Microsoft Licensing £0.033m. This has been reallocated within the 2018/19 capital programme.
- Housing Right to Buy Receipts – the Council has signed up to a DCLG scheme which will allow the previously pooled share of Right to Buy receipts to be retained by the Council, to make a 30% contribution to the costs of delivering new housing schemes. If resources are not spent in a three year

time period the receipts will need to be returned along with interest of 4% above the base rate. The Medium Term Capital Programme assumes forecast receipts will be allocated to new build housing.

- Prudential borrowing is being used to finance the Highways and Infrastructure investment. The revenue costs of this borrowing will be met through the revenue budgets which have been developed as part of the sustainability items.

Table7: Forecast Medium Term Capital Resources

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 Onward £m
Capital Receipts	4.793	0.511	0.470	0.470	0.220
Developer Contributions	13.902	11.902	13.570	7.094	17.980
New Homes Bonus	7.689	0.616	0.000	0.000	2.711
Parking Reserve	0.050	0.050	0.000	0.000	0.000
Prudential Borrowing	34.141	6.233	2.298	4.140	0.879
Single Capital Pot	58.332	9.816	8.586	8.586	11.524
Grants	0.957	3.453	3.453	0.954	0.953
GF Revenue	0.500	0.000	0.000	0.000	0.000
HRA Revenue	3.931	0.094	0.000	0.000	0.000
Third Party Contributions	4.050	0.550	0.000	0.000	15.435
Major Repairs Reserve	16.646	15.435	15.435	15.435	0.000
Total	**144.991**	**48.660**	**43.812**	**36.679**	**49.702**

7.2 No scheme is included into the Medium Term Capital Programme unless it is fully funded. The 2022/23 onward figures reflect the resources required in future years to complete those schemes approved as part of this Medium Term Capital Programme, but no new schemes.

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

Capital Expenditure

7.4 The Medium Term Capital Programme was approved by February 2017 Council. New schemes included for 2018/19 have since been reviewed and scrutinised to identify uncommitted resources remaining which were then allocated to priority schemes.

7.5 In order to develop the revised Medium Term Capital Programme, future years' allocations remain broadly in line with the previous forecast, however these have been updated where changes to specific schemes have been identified and to include emerging pressures in the need for additional school places. Table 8 shows the summary capital expenditure proposed over the medium-term.

7.6 The schemes marked as continuing, are those schemes which have commenced as part of previous years Capital Programmes. Expenditure in the year 2022/23 onwards column reflects the expenditure required to complete the schemes commenced in the Medium Term Capital Programme, but does not include any new starts.

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

- The Children and Families programme includes school expansions to increase the number of pupil places, the completion of a number of new schools already under construction with further 1 secondary school expansion starting in 2018/19.
- The Council is continuing to fund the building of up to 200 new homes to address the increasing demand for affordable housing.
- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.
- The Future Work Programme which will result in improvements to Council office accommodation; supports new ways of working and reduces the cost of Council accommodation.

Table 8: Forecast Medium Term Capital Expenditure

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 Onward £m**
Education – Continuing Schemes	19.972	28.134	16.000	0.000	0.000
Education – New Starts	0.530	2.428	2.306	5.145	4.292
Transport – Continuing Schemes	15.618	2.805	1.110	0.910	3.730
Transport – New Starts	10.415	12.283	13.313	12.439	22.924
Social Care & Housing GF – Continuing Schemes	0.464	0.000	0.000	0.000	0.000
Social Care & Housing GF – New Schemes	0.953	0.953	0.953	0.953	0.953

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 Onward £m
Housing HRA – Continuing Schemes	5.614	0.135	0.000	0.000	0.000
Housing HRA – New Starts	16.867	15.655	15.655	15.655	15.655
EPCS – Continuing schemes	32.960	2.470	0.050	0.000	0.000
Strategic Pot– New Starts	2.714	5.563	4.016	0.778	0.926
Strategic Pot– Pipeline	1.912	2.600	2.800	0.590	0.640
TOTAL Expenditure	**108.019**	**73.026**	**56.203**	**36.470**	**49.120**

Slippage

7.8 The amount of slippage within the capital programme is high. During 2017/18 £16.590m of Spend Approval has already been re-phased into later years. In addition there is currently £39.166m of the 2017/18 resource allocation which has not requested spend approval in year. Cash-flow forecasts on all of the outstanding schemes are being sought from project managers, and resource allocation will be re-phased into later years prior to the submission of the final budget in February.

Summary of Capital Programme

7.9 Table 9 shows the Council's current capital expenditure needs can be met over the medium-term. The costs and funding of these projects will be refined as the capital programme is developed for future years. The detailed draft Capital Programme is available at **Annex K**.

7.10 However, it should be noted that a Multi-Modal study of the road network has recently been completed to identify where additional investment is required. The impact of this study will be built into the Mobility Strategy which is currently being developed. The Strategy will identify future transport infrastructure requirements It is therefore likely the Council will need to maximise returns from assets over the medium term to meet capital requirements, or to contribute (under new legislation) to the transformation costs of the Council.

Table 9: Forecast Medium Term Summary of Capital Resources and Expenditure

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 Onward £m
Capital Resources	144.991	48.660	43.812	36.679	49.702
Capital Expenditure	108.019	73.026	56.203	36.470	49.120
Net Position (surplus) / deficit	(36.972)	24.366	12.391	(0.209)	(0.582)
Cumulative Position (surplus) / deficit	(36.972)	(12.606)	(0.215)	(0.424)	(1.006)

* Once the current review of scheme cashflow (par 7.8) is completed this table will be updated.

8. OTHER FUNDING

S106 Funding

8.1 S106 funding is a key resource in supporting the Council to mitigate the impact of growth. The use of S106 funding must be managed carefully to address both local and strategic needs. Developer Contributions (S106) are included in the Capital Programme or to fund projects which meet the specification outlined in the S106 agreement.

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

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

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

8.5 A total of £10.27m of S106 funding has been allocated within the Capital Programme which includes £6.67m in 2017/18, £3.6m from 2018/19 onwards, of which £4.4m is yet to be received with £3.0m due in 2017/18.

8.6 A further £3.37m has been earmarked to projects. These include projects that are being initiated but do not yet have capital approval, parish and town council projects and other revenue projects awaiting approval.

8.7 The remaining balance of £16.04m is yet to be committed, however all of the funding is notionally ring-fenced to approximately 320 individual S106 contributions, covering over 320 individual projects.

Tariff

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

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

8.10 **Annex L** shows a breakdown of the Tariff resource allocation for 2018/19 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. The allocation of tariff resources was agreed in the original Tariff Delivery Plan. Changes to the timing of delivery of these projects have been made to reflect actual housing delivery and infrastructure requirements.

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

Dedicated Schools Grant

8.12 The Dedicated Schools Grant (DSG) is a ring-fenced grant supporting individual schools, academies and other pupil related expenditure as defined in the School and Early Years Finance (England) Regulations 2017).

8.13 The DSG is broken down into four funding blocks; schools, central schools services, high needs and early years.

8.14 In December 2016 the Department for Education (DfE) consulted on the National Funding Formula (NFF) for both high needs and schools funding elements of the grant, issuing the outcome of the consultation in September 2017. Early Years funding will remain unaffected after changes to this part of the funding allocation were introduced at the start of 2017/18.

8.15 The NFF will be introduced in 2018/19 at a national level, but local authorities will continue to set a local funding formula in 2018/19 and 2019/20, after which it is anticipated that school funding will be allocated at individual school level based on the central government formula. The DfE are encouraging Local Authorities to move towards the funding formula in 2018/19 but are allowing local discretion (subject to the funding rules and regulations) during this time.

8.16 The funding allocations for each of the blocks are calculated as follows:

- The schools block and central schools services block are calculated based on the number of pupils on roll at a specific census date in October 2017.
- The early years block is calculated based on the number of early years pupils on roll at specific census dates in January 2018 and January 2019. An indicative allocation is based on census data at January 2018 which is then revised after the year end when January 2019 data can be confirmed.
- The high needs block is based on a mixture of October 2017 census data and historic spending allocations.

8.17 Indicative allocations for each of the funding blocks have been provided to give an initial estimate of the funding changes as a result of the NFF but these will be revised in December when the final October census information is available.

		Provisional		**Increase**			
	2017/18	**2018/19**	**2019/20**	**2018/19**		**2019/20**	
	£'000	**£'000**	**£'000**	**£'000**	**%**	**£'000**	**%**
Schools	177,840	181,651	186,136	3,811	2.1%	4,484	2.5%
Central Schools Services	1,492	1,455	1,429	-37	-2.5%	-26	-1.8%
High Needs	37,320	39,220	39,398	1,900	5.1%	178	0.5%
	216,652	**222,326**	**226,963**	**5,674**	**2.6%**	**4,637**	**2.1%**
Early Years	19,421	19,421	19,421				
	236,073	**241,747**	**246,384**				

8.18 The increases seen in the schools and high needs block reflect the allocation of the additional funding that the government announced as part of the NFF. This is recognition that Milton Keynes has experienced significant growth and has faced significant pressures in funding of high needs. The new funding formula will now fund growth in schools on a historic basis and high needs on a new funding formula, intended to reflect both recent LA spending, the population and the demographic of young people, by using drivers from the census.

8.19 The early years provisional allocation includes funding for the introduction of the 30 hour offer (increasing the previous free entitlement for 3 and 4 year olds of 15 hours to 30 hours for working families) which was introduced in September 2017. Given the uncertainty of take up against this new offer, the funding allocations have been assumed to remain the same for the following years. It is expected that the DfE will revise the future funding allocations based on January 2018 census information.

8.20 Previously LA's have had the flexibility to move funding between blocks to manage local pressures (usually seen in the areas of high needs). However, with the introduction of the NFF, the DfE has limited the flexibility to do this and will only allow a maximum of 0.5% of the schools block to be transferred to other blocks. This must also follow a consultation with all schools and the schools forum. Based on initial estimates it is not anticipated that this will be required.

8.21 Given the recent announcements, the implications of the changes are currently being modelled in order to prepare the DSG budget for 2018/19 and 2019/20. The budget for 2018/19 will also incorporate any predicted surplus or deficit balance predicted on the DSG by the end of the 2017/18 financial year, which will be apportioned across each of the blocks as an opening balance. Based on the latest forecast position (November 2017), it is expected there will be a surplus carry forward of £0.104m. The budget for 2018/19 will be prepared in line with the funding regulations and following consultations with schools and the schools forum in December and January 2018.

9. BUDGET CONSULTATION

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

9.2 The responses to the consultation will be evaluated to inform the final Budget decisions to be taken in February 2018.

10. ROBUSTNESS AND RISKS

10.1 Section 25 (1) of the Local Government Act 2003 requires that 'the Chief Finance Officer of the authority must report to it on the following matters –

i. the robustness of the estimates made for the purposes of the calculations, and

ii. the adequacy of the proposed financial reserves.'

10.2 Section 25 (2) requires that an authority shall have regard to the report when making decisions about the calculations in connection with which it is made (i.e. setting its budget). This element of the draft Budget report and associated annexes outlines the assessment of the adequacy of reserves and robustness of the draft Budget.

10.3 In preparing the Budget for 2018/19, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report. Where the impact is not known this has been highlighted as a risk.

10.4 The draft Budget adequately reflects known issues including the best forecast position at this point in time. The demand pressures and other issues will continue to be reviewed before the Budget is finalised in February and reviewed if necessary.

10.5 A Budget Risk Register is included in **Annex M**, which sets out the potential risks and issues and an assessment of the adequacy of the Council's level of reserves is set out in **Annex E**.

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

- Residual Waste Treatment Facility – at present the Budget reflects the planned opening of the plant during 2017/18. Acceptance testing has not been successfully completed at the time of this report. Service commencement can only begin once this has been completed. At present, the General Fund Balance is the only means of mitigating any further delay beyond 2017/18. The progress on the opening of the plant is being monitored and any impact on the 2018/19 budget will be reviewed before the Final Budget is presented to Cabinet in February 2018.

- The projections for continued growth in the demand for temporary accommodation are based on the trends over the last three years. However, the demand is uncertain particularly with the introduction of the Homeless Reduction Act from 1 April 2018. This will be reviewed again prior to February Cabinet.
- Business Rates, at present the earmarked reserve to mitigate against Business Rate fluctuations is £1m. Over the last five years the Business Rate Retention scheme has seen considerable fluctuations of between £6m benefit to £5m loss. This area therefore remains a risk and to ensure the Council is well placed to manage this risk the surplus from the projected Collection Fund Adjustment Account will be transferred to this reserve (para 3.12). The level of appeals settled and now actively under Check, Challenge, Appeal will be reviewed prior to February Cabinet to ensure sufficient reserves are in place for 2018/19.

10.7 In light of these three specific issues, any available one-off resources arising after this draft Budget will be prioritised to mitigate the financial impact in these areas.

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

10.9 The General Fund Balance of £15.6m is estimated to be adequate to meet the Council's financial needs in 2018/19.

10.10 This view takes account of the reserves included in the Council's latest audited Accounts as at 31 March 2017; the movement of these reserves since that date (as tracked through the Budget Monitoring process); and the proposed use of reserves as part of the draft Budget 2018/19.

11. RELATED DECISIONS

11.1 Related decisions include:

- The Financial Sustainability Plan 2018/19 to 2021/22, approved by Cabinet in July 2017.
- Council Tax Base and Business Rates Baseline 2018/19 report, approved by Cabinet in November 2017.

12. ANNEXES

12.1 The following annexes are appended to this report for the Budget Scrutiny Committee January Challenge Meetings:

~~2018/19 Budget Pressures~~	~~Annex A~~
~~2018/19 One-off Budget Pressures~~	~~Annex B~~
2018/19 Budget Reductions 2018/19 Budget Income	Annex C1 Annex C2
~~Budget Scrutiny Committee Report on 2018/19 Budget Pressures~~	~~Annex D~~
GF Reserves Assessment	Annex E
Earmarked Reserves	Annex F
Fees and Charges – including: Exemptions to the Income Policy Additional Concessions	Annex G
2018/19 – 2021/22 Forecasting Model	Annex H
2018/19 GF Budget Summary	Annex I
2018/19 Draft Parking Surplus Account	Annex J
Capital Programme – Changes 2018/19 Capital Programme – New Schemes P1 Capital Programme – New Schemes P2	Annex K1 Annex K2 Annex K3
Draft Tariff Resource Allocation	Annex L
2018/19 Draft Budget Risk Register	Annex M
~~HRA compared to the 2017/18 Budget~~	~~Annex N~~
~~HRA Budget Pressures and Savings~~	~~Annex O~~
~~HRA Budget and Medium Term Forecast~~	~~Annex P~~
~~HRA Budget Risks & Minimum Working Balance~~	~~Annex Q~~
Legal Framework	Annex R

13. IMPLICATIONS

Policy

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

Resources and Risk

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

13.2 A detailed budget risk register is available at **Annex M** to this report.

Carbon and Energy Management

13.3 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

13.4 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.

13.5 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

13.6 An Equality Impact Assessment was conducted on all 133 pressures, reductions and income proposals (**Annexes A, C1 and C2**) of which 21 were considered as being 'significant' and 'relevant' to equality. Similar decisions have been brought together to produce 14 in-depth assessments. Full details can be found at http://bit.ly/MKCEqIA-Bud17b.

13.7 These assessments recommend that:

- In ten (10) green areas proposal should continue, as there is a potential to improve the advancement equality of opportunity.
- In four (4) green-amber areas, adjustments have been/are made to remove barriers or better promote equality. Adjustments are identified below.
- There are no (0) amber areas, which are budget reductions or income options that are continuing, despite having identified some potential for an adverse impact or a possible missed opportunity to promote equality.
- There are no (0) red areas, it is recommended that savings not continue, as there is a potential for unlawful discrimination.

Table 11: Summary of adjustments being made (green-amber see paragraph 13.6)

Area of Work	Adjustment Made/Being Made
Learning Disability Review	Better focus of services will promote independent living. The focus of the short breaks service will be the needs of people with challenging behaviour and profound and multiple disabilities. The focus of the day opportunities service will be the needs of people with challenging behaviour and profound and multiple disabilities rather than the current wider offer.
Social Care Charges	The policy needs to be set with due regard of the potential for indirect discrimination if someone wants to stay in their own home, but also if they want to exercise their right to "judge their own well-being". There is also potential for adverse impact. Decisions about the individual must have

Area of Work	Adjustment Made/Being Made
	regard to all the individual's circumstances (and are not only on the individual's age or appearance or any condition of the individual or their behaviour which might lead others to make unjustified assumptions about the individual's well-being).
Night Support	There may be a change in how care is provided to some service users. There will be adequate consultations with these users to minimise the impact
Day Nursery	A number of the current children will no longer be attending the setting due to their age by the time the setting would close. Other families would need to consider alternative settings, available in the local area.

13.8 In equality terms, the 2018/19 budget is focused on meeting the challenges of rising homelessness, demographic increases amongst vulnerable people and children, and maintaining people's independence. Faced with increases in demand, a focus in the budget on these issues has been essential for the advancement of equality of opportunities as well as the meeting of various duties.

Background Papers

Budget Scrutiny Committee papers.