AGENDA ITEM
8

EXECUTIVE

DATE:	**9 FEBRUARY 2009**
SUBJECT:	**BUDGET AND CAPITAL PROGRAMME**
REPORT BY:	**HEAD OF CORPORATE FINANCE AND HEAD OF CAPITAL AND ASSET MANAGEMENT**

CONTACT OFFICERS: **DAVE KEMPSON/MARGARET BIRTLES** **546087/547074**

IMPLICATIONS:

LEGAL	☐	**STAFFING**	☑
EQUALITIES	☑	**COMMUNITY SAFETY**	☑
FINANCIAL	☑	**RISKS**	☑

CONSULTATIONS:

COUNCILLORS CONSULTED	☑	**SCRUTINY COMMITTEE CONSULTED**	☑
STAKEHOLDERS CONSULTED	☑	**OTHER**	☐

WARDS AFFECTED: ALL

LEAD EXECUTIVE MEMBER(S): COUNCILLORS SIMMONS AND HARRIS

RECOMMENDATION(S)

1. Executive is recommended to:

i) Approve the 2009/10 revenue estimates of net expenditure prior to growth, savings, and any movements in reserves, as set out in the budget papers (known as the 'Green Book') circulated, and in this report, for submission to Budget Council.

ii) Consider the items put forward for inclusion in the draft capital programme (set out in the blue pages of the budget papers, subject to

the amendments shown in Appendix T) and the potential funds available (Appendix K), and approve the items and amounts to be included in the capital programme for 2009-2014, for submission to Budget Council.

iii) Note that the budget is prepared on the assumption that London Luton Airport Ltd. will continue its current policy of gift-aiding local charities, and that if the airport board does not do so, the Executive will need to consider in-year budget amendments to make grant payments to those organisations.

iv) Approve the list of savings proposals (white pages of Budget Papers pages 45 to 54) for submission to Budget Council, and approve the service changes necessary to give effect to those savings.

v) Approve the list of growth proposals (white pages of Budget Papers pages 33 to 36) for submission to Budget Council, and approve the service changes necessary to give effect to those growth proposals.

vi) Approve the list of items previously shown in the medium term plan, and together with the amendments shown on the list (white pages of Budget papers pages 37 to 44) for submission to Budget Council, and approve the service changes necessary to give effect to those proposals.

vii) Determine a level of Council Tax increase for the Luton Borough Council precept for 2009/10.

viii) Determine the amount of any contribution to or from reserves required as a result of recommendations 1 (i) to 1 (vi) above.

ix) Recommend the revenue budget approval to Council in the format prescribed by the Local Government Finance Act 1992, subject to the addition of the Fire and Police precepts, when received, noting that the revenue budget recommendation will need to be accompanied by a report from the Head of Corporate Finance on the ‘robustness’ of the budget proposal, accompanied by a statement on reserves and provisions, in accordance with the requirements of the Local Government Act 2003.

x) Approve the submission to Council of the Head of Corporate Finance’s proposals for Prudential Indicators, as set out in Appendix G in accordance with the Prudential Code of Capital Finance.

xi) Approve the Statement of Policy on making a Minimum Revenue Provision for 2009/10, as set out in Appendix C, for submission to Council

xii) Recommend Council to approve an initial allocation of the Dedicated Schools Grant for 2009/10, as set out in Appendix N.

xiii) **Approve the proposed amendments to the ‘Luton Borough Council Model for Assessing Levels of Affordable Borrowing’ as set out in Appendix G**

xiv) **Approve the review of financial services as set out in paragraphs 63 to 67.**

xv) **Approve the development of the Financial Strategy as set out in Appendix D.**

xvi) **Approve the Medium Term Financial Plan set out in Appendix M.**

xvii) **Approve the Budget Risk Management Strategy set out in Appendix B.**

xviii) **Approve the protocol for the management, control and use of reserves set out in Appendix I.**

xix) **Approve the Scales of Charges as set out in the yellow pages of the budget papers.**

xx) **Approve the Asset Management Plan including overview proposals of how to deal with backlog maintenance set out as Appendix U.**

xxi) **Approve the updated Capital Strategy set out as Appendix H**

xxii) **Approve the limitation of the virement and budget reallocation rules, as set out in the Scheme of Devolved Financial Management, in respect of energy budgets, where any virement or reallocation shall require the prior approval of the Head of Capital and Asset Management and the Head of Corporate Finance.**

xxiii) **Approve the principle that a recession provision be created for 2009/10, by the allocation of any general fund surplus achieved in 2008/09 in excess of that used either in setting the 2009/10 budget or approved for specific carry forwards.**

OVERVIEW

2. The draft budget for 2009/10, the draft capital programme for 2009-2014, and the Medium Term Financial Plan have been driven by:

- the objectives of the Council’s Corporate Plan, incorporating meeting the Local Area Agreement Targets, and working towards the aspirations of Luton’s Sustainable Community Strategy;
- the target outcomes of the Corporate Plan and Departmental Service Plans;
- the need to match expenditure to estimated resources;
- the need to reprioritise expenditure to ensure statutory requirements are met, where demand or required standards have increased; and

- the need to maximise efficiencies throughout the Council's services, in order to avoid reductions in the quality of service to the public.

3. The draft budget proposals for growth and savings are those made by the Corporate Leadership Management Team (CLMT), following consultation, for consideration by the Executive.

4. This draft budget includes a total of £8.6 million of growth and unavoidable cost increases. £6.1million of this relates to areas identified as part of the 2008/09 budget process, and those are shown in the listing of 'Items included in the medium term plan and any officer proposals for amendment'. The major issues here are:
   - £1.8million to enable the Building Schools for the Future project to continue, and develop, as the initial wave moves towards financial close with a programme 1 year ahead of initial schedule. The provision should enable the second wave of secondary schools, and then some primary, to benefit from the opportunities to provide facilities that can transform education in the town, working towards achieving the outcomes for children and young people in the sustainable communities strategy and the corporate plan, and continuing the positive physical transformation of Luton.
   - £1.8million on environmental issues, principally waste disposal and recycling, including working in partnership with the Bedfordshire authorities to develop long term facilities for disposal.
   - £1.2million for adult care packages, in line with the focus on health and well-being, and safer communities within the sustainable communities strategy, and in line with the Council's statutory core role in ensuring the vulnerable are protected.
   - A reduction of £600k in investment income, due to low interest rates.
   - An increase of £450k in energy costs
   - £400k of investment in housing, for a rent deposit scheme to try to prevent homelessness in many cases, and to pump prime a housing joint venture to provide more housing in the town. Improving housing conditions, and the amount and range of housing, are key areas for the Council in the achievement of the sustainable communities strategy, impacting on both the health and well-being, and the environment and economic development priorities.
   - The figures also include approximately £0.4million for the Luton Excellence team, which in 2008/09 was funded from the Invest to Save reserve, and just under £0.5million as it is not prudent to assume that profits made from Building Technical Services can continue to subsidise the general fund, when most of their work is for the Housing Revenue Account.

5. The total of savings identified as part of this budget process is £6.8million, and an analysis of this is shown as Appendix S. In line with the principles of the Luton Excellence approach introduced by the Council last year, the savings are designed as efficiencies, not impacting on the quality of service to the public. Efficiency savings also have a national profile and definition, and the Government now require the forecast efficiency savings for 2008/09, as defined nationally, to be included on the face of the 2009/10 Council Tax bill, and in the accompanying leaflet. The national definition excludes any savings made as a result of paying less tax, or passing costs to another public body, and they also exclude charges, except in very limited circumstances. Luton's 2008/09 forecast is £5.2million, or 2.9% using the

Government's baseline for spend, which includes revenue and capital. The 2009/10 equivalent appears to be £5.8million, or 3.2%.

6. This budget therefore represents a major reprioritisation of spend, in line with the key financial objective to review and modify the budget continually to ensure resources are targeted on key objectives (see para. 25), and to ensure the Council meets its statutory responsibilities. Savings are made via efficiencies in order to focus spend on projects fundamental to the success of the Luton Sustainable Communities Strategy, and the Corporate Plan.

7. Every service area was challenged to produce a value for money assessment (all reported to Scrutiny Committees on 11 December), and these were used as part of the challenge to all services to produce significant efficiency savings. Managers have responded on a corporate basis to this, and all proposals assessed to be viable, and without an adverse impact on services to the public, have been put forward for member consideration.

8. The proposed capital programme represents an unprecedented level of public sector investment in the town, principally funded by specific government grants. This includes refurbishing and rebuilding schools in order to give children much better opportunities to learn. It includes major investments in public transport, roads and the town centre. The programme also includes a proposed new Olympic standard swimming pool, on the basis that it is funded by prudential borrowing. These investments are particularly important for the local economy at a time of recession, are a key part of the Council's commitment to continuing the successful transformation of Luton, in order to achieve the aims of the Council's Corporate Plan and the town's Sustainable Community Strategy.

OTHER KEY ISSUES

Council Tax Capping

9. A Ministerial announcement has been made stating that the Government expects the average council tax increase to be 'substantially less than 5%', and that the Government will not hesitate to use its capping powers if it deems this necessary. This is identical to the message given prior to the 2008/09 budget setting.

10. The Government has again emphasised that it will not announce its criteria for capping in advance, and that it would be unwise for authorities automatically to expect the same criteria to be used for 2009/10 that were used in 2008/09. The Government can use tax increases and budget increases, and can if it wishes look at more than one year. In 2008/09 Councils setting both a council tax rise, and a budget increase in excess of 5% were considered for capping. The draft budget increase is less than 5%. Capping involves Government forcing an authority to reset its Council Tax at a lower level, determined by the government, part way through the year. If this happened, further savings would have to be found, not just to balance the budget, but also to meet the additional costs of rebilling. Also, capping is likely to increase non-payment of Council Tax, which would be another unbudgeted cost.

National Economic Position

11. The impact of the recession on the Council will be very considerable over the next few years. The most immediate impacts are set out in bullet-point form below, and the issue is looked at in more detail in the Medium Term Financial Plan (appendix M). Impacts on the Council include:
    - Risks to achieving income targets
    - Reductions in planned capital receipts from the sale of property, which is a key part of funding the capital programme
    - Reductions in investment income as interest rates fall
    - Reductions in the number of banks with high enough credit ratings to enable the Council to invest with them.
    - Reinforcement of the importance of effective economic regeneration.
    - Reinforcement of the importance of the existing plans to improve the benefits service.
    - Potential further pressure on services such as housing benefits, and homelessness, if the recession results in major job losses in the area.
    - Increases in the cost of the Local Government Pension Scheme to the Council and to taxpayers, as the fund's assets are invested in stocks and shares, commodities, etc. Unless there is a major improvement in the value of the fund between now and the next revaluation, due in March 2010, the cost of contributions to pay for pensions will go up considerably.
    - The overall financial and service position becomes ever more difficult, in that all those who providing income to the Council – the Government, the taxpayers, and those who buy services from the Council – will have less funding available. At the same time, demand for services is likely to increase. Thus the pressure to do more for less, which was already very strong, will become ever greater.

Government Funding – Formula Grant, Dedicated Schools Grant, and Area Based Grant

12. The provisional grant announcement for 2009/10 was exactly in line with the amount notified last year, following the comprehensive spending review (CSR07), At this stage it is not clear whether the 2010/11 grant amount will remain as per last year's announcement, or whether the additional £5billion Government efficiency target announced as part of the Pre-Budget report will mean a reduction in the previous planning totals. The provisional amounts are set out in the table below. Further detail of the formula grant settlement is shown in Appendix F.

Table 1	Formula Grant Increase	Formula Grant amount
Year	Percentage increase	£million
2009/10	4.1	86.8
2010/11	3.6	89.9

13. Formula grant is only one part of the funding equation. The Dedicated Schools Grant (DSG) funds schools directly, as well as funding some functions carried out by the Council on behalf of schools. This means that schools are no longer funded from the Council Tax, unless the Council chooses to make contributions in excess of the DSG. The amount of DSG depends on actual pupil numbers in 2009/10, as

there is a guaranteed per pupil grant increase. Hence the grant is provisional until May. The Government announced provisional figures in November, based on the information available to them at the time, but emphasised that authorities should make their own estimates based on their latest pupil data. For Luton the per-pupil increase announced last year was 3.6% for 2009/10, and 4.1% for 2010/11. The allocation of the DSG has to be agreed with the Schools Forum, which meets after the publication of this report. Any disagreement may be referred to the Secretary of State for arbitration.

14. The Area Based Grant (ABG) is just like formula grant. It is a general, non-ring-fenced grant, for the Council to allocate. However, it has been put together nationally by amalgamating specific grants previously given for particular purposes by various different government departments. It has also been varied by Government stating that additional funding, to enable authorities to achieve specific aims, is being added to the Area Based Grant. The situation has been made even more confusing by the way the grant was previously presented, nationally, as enabling partnership working across public sector and voluntary bodies in each council's area. This has, entirely reasonably, led to other local organisations having expectations that their spend priorities could be considered for this funding. The grant determination letter, sent all authorities, states that 'unlike LAA grant, which was allocated for the purposes for supporting the achievement of LAA targets, ABG will be a non-ringfenced general grant'. The general guidance issued in February 2008 states: 'Authorities are free to use their non-ringfenced general funding (ABG and Revenue Support Grant) to support national, regional and local priorities as they see fit.'

15. Of course, funding received by the Council, which is not ring-fenced, can be allocated to partners to achieve aims set out in the Sustainable Communities Strategy, using the Council's power to promote well-being in the area. However, this would require the Council achieving further savings in its expenditure, to enable funding to be freed up for such a purpose.

16. The longer-term position is considered in more detail in the Medium Term Financial Plan and Strategy (appendix M). Informal expectations are that under the current government the revenue support grant figures would probably remain unchanged for 2010/11, but specific grants may well be reduced or withdrawn. From 2011/12 onwards, the Government's overall financial position will be very difficult, and a grant freeze is a relatively optimistic prediction.

Value for Money

17. The need to seek value for money on an ongoing basis is and has been at the core of the Council's plans, and at the core of the Government's plans for all Councils, for many years. Demand for care and environmental services continue to increase, national resources are very limited, and expectations of the level of service are also increasing. This can only be dealt with by providing more for less. In order to do this, the Council has created a Luton Excellence culture, supported by a Luton Excellence support team of experts, and is introducing lean thinking throughout the Council's services. The Council continues to use collaborative procurement, and its

e-procurement processes, within the context of its procurement and commissioning strategies, to make savings while aiming to achieve service and environmental objectives.

18. The Council has used the Audit Commission's interactive web tools to produce a comprehensive value for money assessment benchmarking with statistical 'nearest neighbour' authorities for members to consider throughout the budget process, and this was provided to the Executive and Scrutiny Committees in the September/October cycle. At the budget Scrutiny Committees on 11 December members received individual value for money assessments for each service area, and had the opportunity to question heads of service on them. In addition, the value for money conclusions of the external auditor for 2008 were reported to Audit and Governance Committee in September. Areas for review have been prioritised based on benchmarking, and reviews of Human Resources and Information Management are nearing completion, and a significant amount of efficiency savings have been put forward in this budget between those areas. A review of Legal Services, together with Democratic Services, has recently begun.

19. It should be noted that using some comparators Education services appear above average in cost (although significant reductions in this area have been made, both in past budgets, and in this one), and yet the major measures of educational attainment in Luton are below the national average. However, investment has had significant results: there are currently no Luton schools in special measures, the APA review judged Luton to be one of the best education authorities in the Eastern region of England, and there have been real improvements in pupil performance. Similarly, Luton's refuse collection and street cleaning costs are well above average, but this reflects the quality of a three 'wheelie-bin' service, plus the development of specific glass and food waste collections.

BACKGROUND

20. It is essential that the revenue budget and capital programme are considered together. Many resources, both capital and revenue, are only available to spend on specific projects, but others, such as the Airport Dividend, can be switched between revenue and capital spend. The key indicator in the prudential code of capital finance is the revenue effect of the capital programme on the level of council tax and housing rents over the medium term. The ongoing revenue impact of capital programme proposals is one of the key issues to be considered when reviewing the capital programme.

21. Looking at revenue and capital resources and spend decisions together therefore helps the council to ensure that its resources are used to best effect and that decisions are taken in a 'joined-up' manner.

22. In the long-term, the aim must be to have sustainable levels of revenue budget and capital programme focused on council priorities that will enable the council to achieve the targets of the sustainable community strategy and corporate plan, meet its statutory requirements, satisfy the aspirations of residents, demonstrate best value, and keep the Council Tax at affordable levels. This appeared a very demanding aim prior to the recession, and is even more difficult now. Budget setting

in any one year cannot be seen in isolation from the medium–term projections and this long-term aim.

23. There are some limiting factors, and key ones are set out below.

- **Grant dependency**. The Council's prime source of income is via grant from central Government. The total available for local government, and the division of that total between authorities, varies each year. The reduction in the Government's tax revenues as a result of the recession will mean that most public services, including local government, are likely to have less income than previously thought, as the government simply will not have the funds available to support services at current levels.
- **Demand-led Spend**. Many areas of the Council's spend are demand-led, and have to be provided in accordance with statute. Costs of service provision to the vulnerable – in particular the elderly, children in care, and children and adults with complex disabilities – continue to increase, as the numbers requiring complex care increases, and the costs of that care increase also. As life expectancy continues to increase, the numbers of the elderly, and the costs of caring for the elderly also increase by a much greater rate than the normal inflation factor.
- **The need to reduce the amount of waste sent to landfill**. This is one of the biggest financial issues facing councils. Each council has a target to reduce progressively the amount sent to landfill every year. Those targets are designed to ensure the government meets national targets set by the EU. If the national targets are not met in specified years, the EU will fine the UK, and the Government has made it clear that it will pass those fines on to the individual councils that fail to meet their targets. This is on top of the annual increase in the landfill tax, which is levied on each tonne of waste sent to landfill.
- **Future carbon reduction commitment (CRC) targets**. The government has announced a carbon reduction scheme in future for large businesses and public sector organisations (including schools). The base year for calculating the carbon footprint will be 2010/11, and the targets, and 'carbon trading' – the buying and selling of carbon allowances – is due to start from April 2011.
- **The need to produce a 5-year capital programme that is fully resourced**.
- **The financial risks surrounding major capital schemes, both individually, and in terms of their combined effect**. The draft programme includes some very major schemes which are assumed to be funded by way of capital grant: Building Schools for the Future, the Bedfordshire Energy and Recycling Project (BEaR), the guided busway, the East Luton Corridor, the Luton Station gateway, and the completion of the Inner Ring Road. In addition, in this programme, the proposal for a £25million Aquatic Centre project funded from prudential borrowing. Given the scale of these schemes, the Council needs to consider their risks, not only as individual schemes, but also in terms of their potential collective impact - for example, if all of those schemes overspent by a few percent, the impact on the Council would be massive. This is considered further in Appendix B.
- The budgetary dependence on London Luton Airport Limited funding trusts and voluntary organisations via charitable donations that qualify for gift aid. The overall level has now reached £10million. This is considered further in Appendix B.

- A level of Council Tax in 2008/09 that is below the average of unitary authorities, and much lower than that of the rest of Bedfordshire.
- An exceptionally low yield from any increase in Council Tax, due to the fact that 84% of Luton's properties are in tax bands A, B, or C, and the number currently receiving single person discount is also above average. 1% on the Council Tax yields just under £600k.
- The Council cannot increase its part of the dedicated schools spend by more than the percentage increase in schools spend, without the agreement of the schools forum.
- The Council needs to quantify and settle its potential equal pay liability, and ensure that all its human resource, pay, and recruitment and retention policies for the present and future are set up, maintained and managed in such a way that no further equal pay liabilities are incurred. This issue is considered in more detail in Appendix B.

2009/10 REVENUE BUDGET

24. For some years the Council has aimed to set a balanced budget without the use of reserves to pay for ongoing revenue expenditure. It is fundamental to the Council's current medium term financial strategy, which was re-affirmed by the Budget Council in February 2008 as part of last year's budget-setting process. Key decisions for members will be the following.

- Can the Council set a balanced budget for ongoing expenditure with no contribution from reserves for 2009/10?
- Can the Council re-affirm the principles of the medium term financial strategy?
- If the Council needs to use reserves to balance the budget for ongoing expenditure in 2009/10, how will those key principles be changed?

25. The current key principles that guide the financial strategy are set out below.

1. To maintain a balanced budget position, and to set a medium term financial plan demonstrating how that position will be maintained
2. Spending plans will be closely aligned with the Council's aims and objectives
3. The Council will maintain a prudent level of reserves
4. Budgets will be continually reviewed and modified to ensure that resources are targeted on key objectives.

26. The base budget has been prepared by:

- budgeting for staffing at current establishment levels, less allowances for staff turnover (which over all departments now totals £4million, as it has been increased by £840k as a result of the Corporate Leadership Management Team (CLMT) recommendation to increase the provision by a level equivalent to the cost of increments), and allowing 2.5% for the April 2008 pay award (currently subject to arbitration by ACAS) and 2% for the April 2009 pay award (given the Bank of England's prediction that the level of inflation will fall very quickly in 2009);
- budgeting for supplies and services on the basis of no increase, except where contracts specifically require one (if a general inflation allowance of 2% had been included, this would have added approximately £400k of extra cost).

27. Each department’s base budget was subject to challenge by finance officers from another department. The base budget for each department is shown in the attached budget papers, together with an overall summary.

28. The basis of determination of the contingency provision is shown at Appendix B, arising from the consideration of the principal budget risks.

29. The budget has been prepared on the basis of current cost commitments. There is an assumption that during 2009/10, the Council will reach and sign a second collective agreement with the unions to finalise any outstanding equal pay issues, and that past costs will principally be met from the reorganisation reserve, with the expectation that any further costs can be met by way of borrowing as a result of a capitalisation direction. This is addressed further in the Budget Risk Management Strategy in Appendix B. This expected use of the reorganisation reserve is shown in Appendix I. It is not reflected in the budget summary, as no decision has yet been taken on such an agreement, or its financing. There may also be further ongoing costs, and this is also addressed in the Budget Risk Management Strategy.

30. It has been particularly difficult to estimate the requirements for energy budgets for 2009/10, as current contracts come to an end during the year, and the prices have been so volatile. In addition energy is a key resource that the Council needs to manage on a corporate basis. As a result a separate growth item has been held for energy, a corporate review led by the Energy Manager with Corporate Finance is planned, and it is suggested that the use of the growth item, virement and any reallocation to or from energy budgets should require the prior approval of the Head of Capital and Asset Management, and the Head of Corporate Finance.

Comparison Of 2009/10 With 2008/09

31. A comparison between the 2008/09 budget and the 2009/10 draft base budget is shown at Appendix A.

BUDGET PRIORITISATION

32. In addition to the base budget, options have been put forward for growth and efficiency savings. The priority has been to develop options that maintain the quality of service to the public, without being afraid of changing the way in which services may be delivered, if those changes make the service more efficient. The likely impact of those options has been assessed. This is shown and explained in Appendix C.

33. When considering options, members will also wish to consider the wider context, such as inspection reports and recommendations, the developing local area agreement and sustainable communities strategy, Government priorities (which have been explicitly set out in relation to the use of the Dedicated Schools Grant), and potential long term implications. For example the medium term and long-term potential for fines and costs associated with waste disposal and the landfill

allowance trading scheme make investment in diverting biodegradable waste from landfill very important from a financial as well as environmental viewpoint.

BUDGET CONSULTATION

34. The Council undertook a budget consultation process via LutonLine to determine which front-line services are people's highest priorities.

35. Unfortunately the number of respondents this year has decreased. Feedback is provided in Appendix E.

36. Consultation with the Schools Forum is a statutory part of the allocation of the dedicated schools budget, and the formulae used for the distribution of the individual schools budget. The Schools Forum and schools will be consulted as required and their recommendations will be reported to the meeting.

37. This report will be sent to the Luton Forum and views received will be reported to Budget Council.

38. There is also a statutory requirement to consult representatives of national non-domestic ratepayers. Views received will be reported to Budget Council.

COLLECTION FUND

39. The Executive delegated authority to me to determine the estimated surplus or deficit on the Council's collection fund each year (EX/3/01). Accordingly I have estimated that Luton's share of the deficit is £623,000. (The total deficit is £747,000 and this is shared between the Police Authority, the Fire Authority, and this Council.)

BUDGET UNCERTAINTIES

40. At the time of writing, uncertainties include:

- The Executive's view of the proposals in this report, including growth, savings, the level of funding from reserves to cover spend that is not ongoing, and the Council Tax level.
- Whether the Executive wish to include a general recession provision in the budget proposals.

BUDGET RISK MANAGEMENT STRATEGY FOR 2009/10

41. Any budget of the size and range of the Council's will result in a wide variety of risks. Therefore it is essential that the Council continue to develop, and then monitor, a budget risk management strategy, alongside the budget itself. A proposed Budget Risk Management Strategy is attached as Appendix B. It should be noted that the Strategy is dependent on recommendations regarding the level of reserves and contingencies, as well as the actual budget set, so there will need to be a review of the strategy based on the recommendations made by Executive to

Council, and any amendments made by Council, to keep the strategy current and relevant.

42. It must be noted that the Council will have to live within its budget. There will be no potential for new initiatives or extra spend outside the finally approved budget provision unless those initiatives can be wholly resourced, in the short term and the long term, without impacting on the budget.

43. The budget risk management scheme assumes the continuation of the cash-limit scheme.

LOCAL AUTHORITY BUSINESS GROWTH INCENTIVE SCHEME (LABGI)

44. The Local Authority Business Growth Incentive Scheme (LABGI) allows authorities to retain a proportion of increases in national non-domestic rate income (business rates) locally, rather than it all going into a national pot, which is then redistributed to authorities as part of the formula grant settlement. The scheme is designed is to encourage Councils to bring businesses into their area, and operated from 2005/06 to 2007/08.

45. There was no LABGI allocation for 2008/09. An announcement on the shape of a new scheme, and grant for 2009/10 is expected in a few months time. In the current economic circumstances, it is not safe to assume that the Government will be able to maintain the £150million previously indicated as the national total for 2009/10, nor is it safe to assume that Luton will receive any funding. However, the Executive previously agreed to make an allocation from the 2007/08 award to fund regeneration, with part spent in 2008/09 and half in 2009/10. The budget is prepared on this basis, with £296k for 2009/10 spend, and should an allowance be received in 2009/10, it is suggested that it be regarded as one-off funding to help respond to issues arising from the recession.

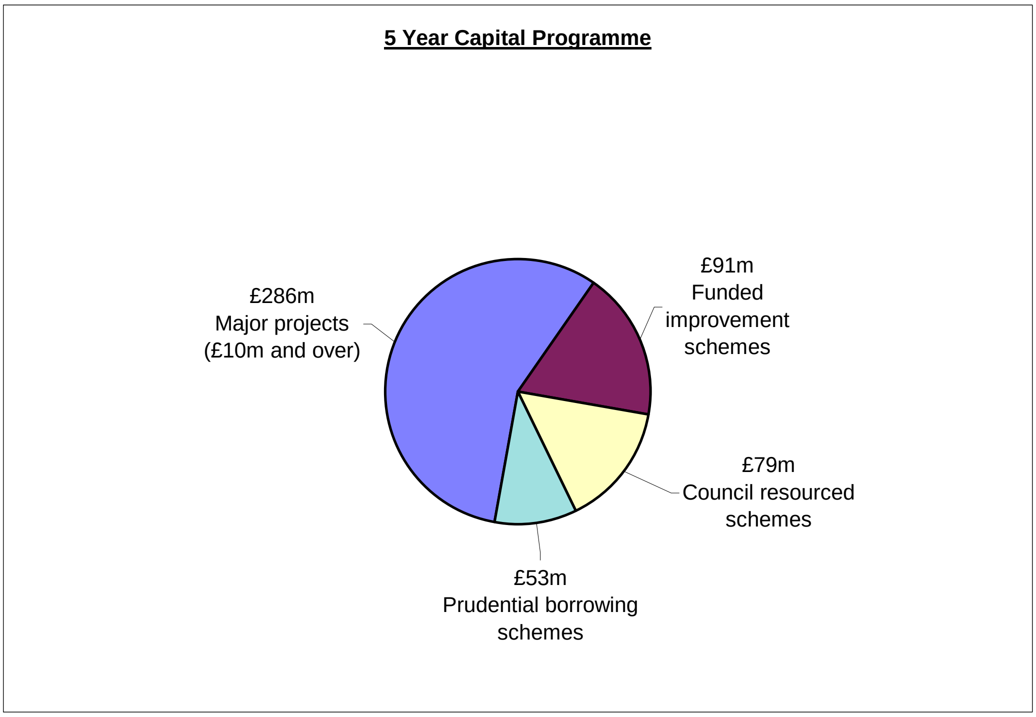
<u>CAPITAL PROGRAMME 2009/14</u>

46. The Council's Capital Strategy (which has been updated as Appendix O) provides a framework for adopting a long-term capital investment planning process aimed at supporting the targets set out in the Sustainable Community Strategy, 'Our Luton in 2026', and the Corporate Plan at the same time as trying to maintain existing assets within the resources available. Integration of capital and revenue budgets is a high priority and the Council has adopted best practice in relation to use of resources by agreeing a fully resourced five-year programme that is linked to the corporate and service asset management plans.

47. The Council has managed to achieve major funding from external sources, which means that the programme is a large one for a Council, the size of Luton. The level of funding available from the Council's resources is, however, very limited, which impacts upon basic maintenance programmes for all infrastructure. The condition of the buildings (backlog maintenance), in particular, impacts upon service delivery.

48. The 5-year programme, incorporating the late amendments arising from recent monitoring which are shown as Appendix T, includes £509million of capital

projects, £37million for the Housing Revenue Account and £470million for the General Fund. The general fund projects can be analysed as follows:



49. Significant projects over the 5-year programme include Building Schools for the Future (£155.2million starting in 2009/10); the Primary Basic Need/Capital Programme (£40.7million Starting 2009/10); Luton Dunstable Busway (£84.4million starting in 2008/9); the Aquatics Centre £24.9million starting 2009/10;and the Luton Town Centre Transport Scheme (£20.9million starting in 2009/10).

50. The programme endeavours to address the following key issues:
- Condition of buildings (backlog maintenance) and impact upon service delivery;
- Reliance upon capital receipts in a declining property market;
- Reduction in projected receipts from sales of Council dwellings;
- Funding implications of the Aquatics Centre proposal; and
- Significant projected shortfall in primary school places from 2009/10 onwards.

51. The key additions to the draft programme are as follows:
- An increased Primary Basic Need/Capital Programme (now £40.7million starting 2009/10);
- The Aquatics Centre (£24.9million starting 2009/10);
- Town centre transportation scheme (GAF3) (£4million starting 2008/09)
- Green Infrastructure Programme (GAF3) (£1.5million starting in 2008/09)
- Energy Conservation (£150,000 in 2009/10);
- Development of Putteridge Playing Fields in 2009/10;
- Property Maintenance in the last year of the programme (£3million);
- Grants for Renovations and Adaptations to Private Dwellings (formerly Housing Renovation Grants) in the last year of the programme (£2.3million);

- Increasing Street Lighting Replacement from £650,000 to £1.5million in the last year of the programme; and
- Highways Health and Safety in the last year of the programme (£600,000).

52. A small number of projects (totalling £2.108million) have been removed as they are no longer required, these are
    - Asbestos removal (£110,000);
    - Health & Safety measures (£310,000);
    - Corporate signage Disability Discrimination Act (£330,000);
    - Central Depot – Replacement Transportation Workshop (£700,000); and
    - Customer Contact Centre Phase 3 (£688,000)

    Removal of these items will not impact upon service delivery. The first three items are health and safety items and are provided for within other budget lines in the Capital Programme. The funding for the replacement transportation workshop is not considered a priority at present, and the provision would not be sufficient for such a move. The requirement for a Customer Contact Centre phase 3 will be reviewed as part of the development of the Customer Access Strategy, which will develop investment plans to be included in future programmes.

53. The Executive is prioritising the development of a new Aquatic Centre, with an Olympic-sized swimming pool, to aim to provide a landmark sporting facility that the town can be proud of, and that will contribute to improving the environment and economic development, and improving the health and well-being of the people of Luton, two of the key aims of the Sustainable Communities Strategy. The proposal is to fund the centre from prudential borrowing, with a first call on the Airport dividend each year to fund the principal and interest repayments. The Luton Model for Assessing Levels of Affordable Borrowing, Appendix G, has been revised with this in mind.

54. The draft programme aims to reflect the principles of the Reshaping the Estate initiative which aims to deliver the vision for assets and which will be the strategic framework which will form the key component of the revised asset management plan. The revised asset management plan is attached for member approval. This document will be further developed through consultation with officers and Members during 2009/10. In particular a detailed Reshaping the Estate Strategic plan will be produced.

55. Closely linked with the asset management plan is the capital strategy. The availability of resources will impact upon the delivery of the asset management plan, but it is anticipated that the asset management plan will facilitate prioritisation of investment into a smaller number of strategically located property assets for both frontline and backroom services. A prioritised planned maintenance/investment programme across all buildings, prioritised on the basis of need, is in place (see Appendix O). A maintenance strategy is being developed alongside the Reshaping the Estate Strategy referred to in the draft Asset Management Plan. The asset management plan will also provide a basis for strategic attraction of additional funding.

56. Reliance upon capital receipts from property sales to resource the Council funded element of the draft programme has been identified as a major risk, particularly in the face of the anticipated weak property market in 2009/10 and 2010/11. To mitigate the risk new resources into the programme through capital receipts that are not earmarked for specific projects are forecast have been reduced from £24.183million in the current programme to £22.4m in the draft programme, and the dates for achieving the receipts have been re-assessed. Inclusion of invest to save initiatives serves to reduce the reliance upon capital receipts and injection of additional resources of £7million in 2013/14 from LLA. Usable capital receipts from Right to Buy sales have been also been reduced from £7.26million to £3.72million for the draft programme to reflect the weakening housing market.

57. The projects included within the draft programme will also contribute towards delivery of Reshaping the Estate through major initiatives such as Building Schools for the Future and the Primary Capital Programme, meeting the Future Living Needs of Older People, Day Services Modernisation and the Marsh Farm Masterplanning Exercise.

SCALE OF CHARGES

58. Proposals for the Council's Scale of Charges are shown in the yellow pages of the 'Green Book' Budget Papers. For a number of years the majority of these charges have been approved by Executive in November for increase on 1 January. However, this year, given the recession, existing charges have been maintained until 1 April. An analysis of the expected income from the proposed increases in attached as Appendix P. It must be noted that the budget has been prepared on the basis that these proposals will be approved, and if alternatives are put forward, the impact of those proposed changes will need to be calculated and allowed for in the decisions on the overall budget and council tax. The Executive is requested to approve a scale of charges.

RESERVES

59. The Local Government Act 2003 requires my views on the necessary level of reserves to be reported to full Council as part of the budget process. CIPFA have added to this by recommending:

- a review of the level of earmarked reserves as part of budget preparation, together with estimates of the use of reserves in the forthcoming year;
- a statement from the chief financial officer 'on the adequacy of the general reserves and provisions in respect of the forthcoming year and the authority's medium term financial strategy'.
- a protocol for the management, control, and use of reserves

60. Attached as Appendix I is a table showing a protocol for each reserve, setting out its purpose, how and when it can be used, and procedures for management and control. Also included in the table are estimated balances and estimates of the potential use of reserves in 2009/10. It is recommended that all the reserves continue to be reviewed annually as part of this budget report, in order to ensure continuing relevance and adequacy.

61. CIPFA's Guidance note on Local Authority Reserves and Balances, of February 2003, sets out the issues that need to be taken into account in order to assess the adequacy of the unallocated general reserves. Essentially this involves looking at the strategic, operational and financial risks facing the authority, the budget assumptions, including the treatment of demand-led pressures, and the authority's financial standing and management. This therefore involves a very wide-ranging assessment. Particularly important areas are the Council's budget monitoring processes, the Risk Register, the Budget Risk Management Strategy, and the treatment of growth and savings. An assessment is set out in Appendix B.

ROBUSTNESS OF BUDGET PROPOSALS

62. The Local Government Act 2003 makes it a requirement that the Head of Corporate Finance reports in public on the robustness of budget proposals. This report will be presented to Council as part of the Executive's budget proposal.

FINANCIAL HEALTH CHECK

63. This financial review is divided into 2 parts:
- A review of the council's financial services functions, covering capacity, resourcing, and training. (Financial Services in this context is limited to the Corporate Accountancy, Exchequer Services, and the devolved departmental finance teams reporting to Finance Managers.)
- A review of the council's financial management arrangements.

64. The Council's financial services are provided in-house, using a devolved approach with departmental finance managers having a professional reporting responsibility to the Head of Corporate Finance, as well as reporting direct to their departmental management. The corporate finance team provide a shared service for debtors, creditors, payroll and insurance, lead corporately on risk management, maintain and develop the financial systems, and treasury management, co-ordinate and direct all corporate financial processes, including budget preparation and monitoring, final accounts, medium term financial planning. The devolved teams provide a complete management accounting and financial advisory service to their departments.

65. The service is below average in cost, per the IPF benchmarking data, for all areas except schools financial advice. The assessment using the first CIPFA financial model gave above average results, and an independent survey of managers by IPF gave positive results for the service. The service has a number of fully qualified accountants, accounting technicians, payroll staff, and staff undertaking training. It has been registered as an accredited employer for post qualification training with major accounting bodies CIPFA, ACCA, CIMA, and the Association of Accounting Technicians. The recent use of resources assessment gave the Council a 3 – performing well – in financial management, and financial standing. The financial management processes are generally carried out in accordance with best practice as set out by CIPFA in their technical information service, budget monitoring is carried out monthly and reported to CLMT/Corporate Improvement Board. It is

linked to performance and reported to Executive in an integrated performance and finance report on a quarterly basis, with key activity indicators.

66. The standards required by the use of resources assessments, and accounting rules, increase each year. This has been managed without increasing the establishment, in order to maintain the low cost approach to ensuring accountability for public funds and value for money for the taxpayer. The 2007/08 use of resources assessment for financial reporting reduced from a 3 to a 2, which means ‘performing adequately’, in the transition towards International Financial Reporting Standards (IFRS). To address this in 2008/09, a multi-disciplinary IFRS project team has been set up to manage the implementation, and training is being provided for accountants. This is one of the major projects facing Finance staff in the next few years. It should also be noted that the financial reporting score reduction did not affect the overall score for use of resources.

67. The service is highly regarded by senior management and members, and the Head of Corporate Finance chairs the Unitary Treasurers Group, and has been elected the next president of the Society of Municipal Treasurers. The service has the capacity to carry out its current work programme, the major pressure point being the planned upgrade of the Payroll system to integrate with the Human Resources system, and its clash with work on the collective agreement. In terms of potential best practice developments, it should be noted that:

- the work programme does not include the systematic assessment of the extent of subsidy the Council provides on many of the services that it charges for, and such an assessment would require specific resources;
- The Audit Commission’s publication ‘World Class Financial Management’ suggests that authorities should be producing balance sheets for each month’s accounts, in order to enable authorities to focus more on balance sheet management. Again, this is a resource issue, and any future proposals for development will need to be set against demands in statutory services, such as care, and the context of the limited funds available to authorities
- the service is not resourced to carry out a zero-based budgeting approach for the council

68. The Financial Regulations have been reviewed to check whether updates are required, but none appear necessary at this time.

69. In order to maintain a healthy financial position, the Council will need to continue to do the following.

- Keep to the balanced budget position.
- Work towards a capital programme that spends resources when they are received, rather than prior to their receipt.
- Manage the capital programme overall, by timetabling the major capital schemes to avoid the largest financial risks being taken on at any one time, to minimise the risk of the Council being left with cost overruns, and/or additional revenue impact.
- Continue to develop the value for money culture, and embed the Luton Excellence project throughout the Council, so that the organisation is continually improving its customer service and providing more for less.

- Integrate medium term budget planning with the embedding of the Luton Excellence culture, so that work on budget planning and development proposals is an ongoing process during the whole year.
- Work towards the development of a revenue budget of a size that is sustainable in the long term, so that increases in pay and prices, net of efficiency savings, are in line with likely levels of grant support together with acceptable increases in Council Tax yield.
- Use one-off financial windfalls to fund one-off, non-recurring schemes, so that the underlying spend is funded by underlying income, and the long-term budget situation remains balanced.
- Ensure that a prudent amount of revenue reserve is always maintained.

FINANCIAL STRATEGY

70. The proposals in this draft budget and the implementation of the Luton Excellence project further develop the Executive's Financial Strategy. Suggested amendments are shown in Appendix D.

COUNCIL TAX LEVELS

71. Current Council Tax comparisons with unitary councils, neighbouring authorities, and national averages, are set out in Appendix L. The list of unitary authorities is sorted with the lowest band D council tax at the top.

EQUALITIES INCLUSION AND COHESION IMPLICATIONS

72. The budget ultimately approved by Council will set the level of revenue resources directly available for equalities, inclusion and cohesion work. There are direct implications in that the draft budget includes the staffing costs of the current equalities and social inclusion posts. The estimates also include budgets allocated to a number of services which are likely to impact on the Council's equality, social inclusion and cohesion priorities. Should there be any other options considered, the extent of their impact should be assessed as part of the proposal. Managers have made initial assessments of the equalities impacts of budget savings proposals and these are being evaluated by the Head of Equalities, who will determine where further work will be required. An update will be reported to the meeting.

FINANCIAL IMPLICATIONS

73. These are addressed in the body of the report.

RISK IMPLICATIONS

74. There is a separate appendix – B – setting out a detailed Budget Risk Management Strategy.

LEGAL IMPLICATIONS

75. The Executive is required to recommend a budget to Full Council for approval and

Full Council is required to approve a budget and set a level of Council Tax for 2009/10. The budget set may not be a deficit budget. This has been agreed with the Head of Legal Services on 28 January 2009.

STAFFING IMPLICATIONS

76. The budget ultimately approved by Council will set the level of resources available for paying employees. The draft budget makes provision for staffing at currently approved levels, subject to the qualification set out below, but, as in previous years, allows for a turnover provision and assumes that staff advertising will be paid for by holding posts vacant.

77. The recommended 2009/10 savings include proposals for a number of posts, mostly vacant, to be removed from the establishment. It has been identified that 16 post-holders may be directly affected, in 13.11 FTE posts. The Council has an active redeployment policy as a key part of its organisation development policy, and it is expected that new posts can be found for those affected. The growth proposals include 1.5fte new posts.

COMMUNITY SAFETY IMPLICATIONS

78. The budget ultimately approved by Council will set the level of resources available for Community Safety.

COUNCILLORS CONSULTATIONS

79. The budget has been prepared in consultation with the members of the Executive.

STAKEHOLDER CONSULTATIONS

80. Full details of consultation is set out in the section of this report headed Budget Consultation.

SCRUTINY COMMITTEE CONSULTATIONS

81. This report will be considered by Performance Resources and Assets Scrutiny Committee on February 4. All members of the Council have been invited to the meeting. In addition each Scrutiny Committee considered the approach to budget preparation in September/October 2008, and asked detailed questions of Heads of Service concerning base budgets and options for growth or savings in December 2008.

OPTIONS

82. It is open to the Executive to recommend any level of Council Tax increase provided the level of savings, growth items, fees and charges and/or any contribution from reserves enables the net budget to balance with the level of tax increase proposed, and the issues raised in the section on capping are given due consideration. It should be noted that a budget set with a contribution from reserves to fund recurrent expenditure would require a change to the Council

approved medium term financial strategy, and that a capital programme set at a level above the estimated available resources over a 5 year period would be in contravention of the Council's standing orders.

APPENDICES

83. The following appendices are included with this report, or in some instances are to follow (in addition to the 'Green Book' budget papers, that should be retained by all members for the full Council debate).

Appendix A – Analysis of Variances between 2009/10 Net Expenditure prior to Growth And Savings, and the 2008/09 Budget. (**To Follow**)

Appendix B – Risk Management Strategy and Contingency Provision

Appendix C – Statement of Policy on Making a Minimum Revenue Provision

Appendix D – Financial Strategy (**To Follow**)

Appendix E – Budget Consultation 2008 – Results.

Appendix F – Government Grant Formula.

Appendix G – Model for Assessing Levels of Affordable Borrowing and Prudential Code for Capital Finance (Including Prudential Indicators).

Appendix H – Capital Strategy (**To Follow**)

Appendix I – Protocol for the Management, Control and Use of Reserves (**To Follow**).

Appendix J – Prioritisation of Project Appraisal Forms. (**To Follow**)

Appendix K – Capital Resource Assessment.

Appendix L – Council Tax Comparisons - 2008/09 Tax Levels.

Appendix M – Medium Term Plan

Appendix N – Schools Budget 2009/10 – Use of Headroom (**To Follow**)

Appendix O – Asset Management Plan (**To Follow**)

Appendix P – Analysis of Scale of Charges. (**To Follow**)

Appendix R – Statement of Robustness of Budget (**To Follow**)

Appendix S – Summary of total savings in the 2009/10 budget

Appendix T – Addendum to Capital Programme

Appendix U - Backlog Maintenance Programme

BACKGROUND PAPERS

Revenue Estimate Working Papers. Contact Jean Stevenson, Luton 546127
Capital Programme Working papers. Contact John Glover, Luton 546112