

## EXECUTIVE

DATE: 11 FEBRUARY 2002

SUBJECT: BUDGET 2002/3

REPORT BY: HEAD OF CORPORATE FINANCE

CONTACT OFFICER: DAVID KEMPSON 546087

### IMPLICATIONS:

LEGAL	<input type="checkbox"/>	STAFFING	<input checked="" type="checkbox"/>
EQUALITIES	<input checked="" type="checkbox"/>	COMMUNITY SAFETY	<input checked="" type="checkbox"/>
FINANCIAL	<input checked="" type="checkbox"/>	OTHER	<input type="checkbox"/>

### CONSULTATIONS:

COUNCILLORS CONSULTED	<input checked="" type="checkbox"/>	SCRUTINY COMMITTEE CONSULTED	<input checked="" type="checkbox"/>
STAKEHOLDERS CONSULTED	<input checked="" type="checkbox"/>	OTHER	<input type="checkbox"/>

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WARDS AFFECTED: ALL

LEAD EXECUTIVE MEMBER(S): CLLR MCKENZIE

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### RECOMMENDATION(S)

1. Executive is recommended to

- i) Approve the revenue estimates of net expenditure prior to growth, savings, and movements in reserves, as set out in the budget papers circulated, for submission to Budget Council.
- ii) Determine the extent of Savings Proposals (as set out in the budget papers pages 34 to 43) to be approved for inclusion in the Budget for submission to Budget Council
- iii) Determine the extent of Growth Proposals (as summarised on Page 33 of the Budget Papers and detailed in Appendix C) to be approved for inclusion in the Budget for submission to Budget Council
- iv) Determine a level of Council Tax increase for the Luton Borough Council precept for submission to Budget Council
- v) Determine the amount of any contribution from reserves required as a result of recommendations 1 (i) to 1 (iv) above

- vi) **Recommend the above to Council in the format prescribed by the 1992 Local Government Finance Act, subject to any amendments notified to the Council in respect of the Council's contribution to the Combined Fire Authority and/or the Environment Agency, and to the addition of the Police precept, when received.**
- vii) **Approve in principle the creation of an earmarked reserve for invest to save projects, and ask for criteria to be developed to determine how projects will qualify for invest to save.**
- viii) **Approve those Scales of Charges set out in pages 101 to 110 of the budget papers**
- ix) **Approve a medium term financial strategy as set out in paragraph 75 for the concurrence of Budget Council**
- x) **Approve the Budget Risk Management Strategy set out in paragraph 66 subject to the concurrence of Budget Council.**
- xi) **Agree the priority areas for allocating additional schools funding as set out in paragraph 7 of Appendix B to this report.**

## **BACKGROUND**

### **BALANCING THE BUDGET**

2. The Executive on 22 October resolved 'that the council aim to balance the budget for 2002/3'. This is in line with the council's current approved medium term financial strategy which determined that the council should aim to balance the budget 'and then to maintain a balanced budget position.'
3. The key importance of this strategy has been emphasised by the IDeA review, which stated that balancing the budget was the 'best early win', and that having a balanced budget would enable the Council to focus on service improvements, rather than on ways to achieve continual cuts.
4. The first key recommendation of the external auditors management letter is that members should 'carefully consider the recommendations of the budget challenge group and take the hard decisions which will be necessary to eliminate the budget gap.'
5. The White Paper, *Strong Local Leadership - Quality Public Services*, has confirmed that the Audit Commission will be classifying councils as top performing, striving, coasting, or under performing. Top performing and striving councils will be given greater freedoms. One of the measures used to judge councils will be the way they redistribute resources to match priorities. To do this, the Council first needs to balance the budget in a way that matches priorities, and then to redistribute resources.
6. The CIPFA consultation paper on proposals to change the capital controls mechanism envisages that Council's will only be permitted flexibility to extend borrowing capacity if it can be demonstrated that the borrowing costs are affordable. The implication is that we will not be able to take full advantage of this if our budget is not in balance.

### **THE HISTORICAL POSITION**

7. There are two aspects that need to be considered:
  - i) reserves
  - ii) past levels of Council Tax.
8. Luton Borough Council has set a budget including a contribution from the general reserve – that is, a deficit budget - each year since 1985/6. The strategy was to use reserves to shield local taxpayers from the full cost of services. Underspends, careful financial management, and income achieved from deals relating to the Arndale Centre and Winswitch property development meant

that despite this, the reserves increased to £25million at the end of 1997/98. However, from 1998/9 onwards spend has been close to budget, and the general reserve has reduced by over £10million in the three years to 2000/01. Current budget monitoring indicates a further £3million deficit in 2001/2, which will mean that in 4 years, the general reserve will have reduced by over 50%. This is not sustainable.

9. The issue of Council Tax relates to 1997/98, when Luton attained unitary status. At that time a universal budget 'capping' system was in place, with particular rules applied to areas where unitary authorities were created. The Council set its budget at the capping limit, the maximum legal level. That level created a significant reduction in Council Tax for Luton taxpayers. It also meant a reduction in the money potentially available to be spent in Luton. The reduction was 9.01% excluding the Police precept. At the same time the Council increased Education spending in Luton by £3million, in line with its key objectives and the national priority to maximise Education spend. It also sought efficiency savings which totalled over £11million between 1997 and 2001.

### **COUNCIL TAX COMPARISONS**

10. The Council included comparative Council Tax levels in its consultation with Council Tax payers (see below). These are the levels paid by taxpayers, including both the Police precept, and the average parish precepts in areas with parishes.

<b>TABLE 2 - COUNCIL TAX LEVELS FOR 2001/2</b>		
Neighbours and National Averages	Average Tax	Band D Tax
	£	£
CHILTERN	1,046	878
ST. ALBANS	929	860
MID BEDFORDSHIRE	915	969
SOUTH BEDFORDSHIRE	900	1,020
BEDFORD	820	960
DACORUM	813	839
NORTH HERTS	801	860
NATIONAL AVERAGE	741	901
UNITARY AVERAGE	680	879
<b>LUTON</b>	<b>603</b>	<b>805</b>

11. When local comparisons are being made, it should be noted that the South Bedfordshire figures are averages for the area overall – Dunstable has the highest parish precept in South Beds., so the figures for Dunstable will be higher than those shown here.

### **REPORT**

12. The Medium Term Financial Forecast predicted a deficit of over £5million for 2002/3 if the Council Tax increase was limited to 4.5%. To balance the budget, therefore, a major tax increase and/or major budget reductions are required. In view of this, the Executive approved public consultation via Lutonline on the level of Council Tax increase for 2002/3. The Lutonline article set out three options:
  - 1) 10% Tax increase, assuming £1million efficiency savings, £3million service cuts
  - 2) 15% Tax increase, assuming £1million efficiency savings, £1.5million service cuts
  - 3) 20% Tax increase, assuming £1million efficiency savings.
13. The Government White Paper encourages Councils to consult on Council Tax levels, and promises future guidance. To date very few Councils have held referenda, and consultation of this type is innovative for this Council and others. It allows the taxpayers' responses to be clearly set out for members' consideration when the decision on the council tax level is taken. The responses received are set out in table 3.

**TABLE 3 - BUDGET CONSULTATION RESPONSES AT 11 JANUARY 2002**

Option	Number of respondents	Percentage of Votes	Percentage of all returns
10% increase	183	46	42
15% increase	54	14	13
20% increase	159	40	37
Total voting for an option	396		92
None of those	36		8
Total	432	100	100

14. In addition to this formal consultation, presentations on the Council Tax position are being made to each Area Committee, and to the Senior People's Forum. Those present are being invited to give their views on the level of tax increase. The votes taken at the time of writing the report are set out in table 4 below. Consultation will also take place with Non-Domestic Rate Payers on 4 February and views from that meeting will be reported orally to members.

**TABLE 4 - AREA COMMITTEE CONSULTATION**

Option	Biscot, High Town, Crawley	Dallow Farley, South,	Bramingham, Sundon Park	Icknield, Limbury, Saints
10% increase	4	3	0	0
15% increase	8	9	0	2
20% increase	6	12	3	10
None of those	4		30 approx	21

**TABLE 5 – Consultation with Senior People's Forum**

Option	
10% increase	1
15% increase	6
20% increase	4
Abstentions	28

15. It should be noted that the Local Government White Paper stated that nationally tax increases over the last 3 years have averaged 6.4%, and that the Government believes this to be far too high, stating that increases should be closer to inflation. However, it should also be noted that the Government's calculation of council tax at standard spending nationally shows an increase of 5.2% for 2002/3. This is a notional calculation of what the council tax increase would be if all authorities spent exactly in line with the government's standard spending assessments. Furthermore, papers released at the time of the Chancellor's November 2001 announcements on the budget showed that the Treasury model assumes an average Council Tax increase of 6.8% for 2002/3.

## **BUDGET**

16. The base budget has been prepared on the basis of budgeting for the minimum cost to maintain the current levels of service. In a number of areas that means costs rising in excess of inflation, and in others efficiency gains have been made. The main reasons for the variations in budget between 2001/2 and 2002/3 are shown at Appendix A. The budget for each department is shown in the attached budget papers, together with an overall summary.
17. The Education and Youth Service budget has been prepared on the basis that spend will match the Council's Standard Spending Assessment (SSA) for Education, as in previous years. A

report on the Education and Youth Service budget, prepared by the Director of Lifelong Learning, appears as Appendix B to this report.

18. Table 5 shows a summarised budget position, **excluding** Growth and Savings proposals.

<b>Budget Summary</b>	2002/3	2003/4	2004/5
	£m	£m	£m
Net Cost of Council Services pre Contingencies and Airport	191.2	200.1	210.1
Bedfordshire and Luton Fire Authority	5.2	5.4	5.5
Environmental Agency	0.8	0.8	0.8
Airport Dividend	-5.3	-5.3	-5.3
Contingencies, inc Single Status	1.6	2	1.7
<b>Total Net Spend</b>	<b>193.5</b>	<b>203.4</b>	<b>212.8</b>
Less Collection Fund	-0.1	-0.1	-0.1
Less Revenue Support Grant/NNDR	-147.3	-153.2	-159.3
Net Requirement Prior to Growth, Savings and Council Tax	46.1	50.1	53.4

19. An allowance has been made for pay awards at 3%, and for inflation continuing at current levels. It is assumed that there will be no further reductions in interest rates, and that £350,000 of the neighbourhood renewal fund can continue to be used to fund expenditure in the base revenue budget in 2002/3 and 2003/4. No provision has been made for any preparation costs for the Euro other than officer time. No estimate has been made of income from DEFRA waste minimisation grant, as the basis on which grants may be provided is still unknown.
20. No costs have been included at this stage for e-government, and the e-government grant announced for each authority has also been excluded. Whilst the council will clearly be guided by the imminent Best Value review report on Information and Customer Services, it is likely that proposals may be made to implement a Call Centre, One-stop shop and enhancements to the council's web site. Clearly this will have significant cost implications which cannot be accurately assessed at this stage.
21. The contingency provision comprises the costs to the General Fund of Single Status, £250k in 2002/3 rising to £900k in future years, plus £300k to cover the revenue costs of the Council's leasing programme, and £200,000 on the assumption that the Arndale Market rent income will reduce in the short term as a result of the investment required by the successful tenderer in refurbishment. There is also a general contingency of £900,000 in 2002/3, reducing to £500,000 in 2003/4, which is deemed necessary in light of the many risks that are highlighted in the next section of this report.
22. It is assumed that any one-off costs arising from implementing savings proposals will be met from reserves.
23. It is assumed that a proportion of time spent by technical officers in dealing with renovation grants is properly capitalised and charged to those grants.
24. It is assumed that the current division of costs between the General Fund and the Housing Revenue Account (HRA) continues.
25. The budget shows significant increases in net expenditure figures between years. Some of the reasons for this are set out below.
26. The Council provides an extensive and expensive range of discretionary services. According to CIPFA statistics, Luton is among the top 10 local authority spenders per head of population on

Leisure and Recreation, and is the highest net spender per head of population on Community Centres of all the local authorities who made a return. Luton also funds private sector house renovation well in excess of the statutory requirement. The standard spending assessment and general government grants to councils are based on the costs the Government deems necessary to provide a standard level of service, although that service level has never been defined. As a result, the expenditure of authorities who choose to provide a high level of discretionary services in addition to their statutory services will generally continue to increase by more than the increase in government grant. Unless services are reduced, it will be very hard to balance the budget on an ongoing basis.

27. The scale of the Council's capital programme does not meet every aspiration, but is considerably in excess of the programmes of most authorities of Luton's size. The financing of that programme reduces the council's funds. It reduces interest receivable, can increase borrowing, and recently has resulted in significant loss of rent due to sales of revenue-earning properties to fund the capital programme.

### **Council Tax Benefit Subsidy Limitation**

28. The Government has announced the abolition of Council Tax Subsidy Limitation scheme with effect from 2002/3. This significantly improves the yield to the Council from any Council Tax increase. For 2001/2 the subsidy limitation cost the Council approximately £60k for every 1% the tax increase was above the government guideline level.

### **Collection Fund**

29. 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 there will be a Community Charge surplus of £3,000, which belongs to this Council, and a Council Tax surplus of £132,000, which is shared between the Police Authority and this Council. Luton's share of the Council Tax surplus is £120,480. Last year I warned that vigorous recovery action would be required if a surplus was to be maintained, and it is pleasing to note that it is possible to continue to estimate for a surplus, as cash collection has improved significantly.

### **General Grants from Government**

30. The Council's major source of income is general grant from Government - that is, Revenue Support Grant (RSG), and National Non-Domestic Rate (NNDR) redistribution. NNDR is redistributed to authorities on a per capita basis, and RSG according to the standard spending assessment. The White Paper confirmed that the government intends to move away from the standard spending assessment formula for distributing grant with effect from 2003/4.
31. The Government announced the provisional grant settlement for all local authorities on December 5. This was subsequently reissued, with corrections, 3 times before the final settlement on January 28. The total figure for RSG and NNDR was extremely close to the prediction in the report to Executive of 22 October.

**Table 6**

<b>Government Grant</b>	<b>Final Settlement</b>	<b>Prediction</b>	<b>Variation</b>
	£m	£m	£m
Revenue Support Grant (RSG)	90.999		
National Non Domestic Rate (NNDR)	56.327		
<b>Total General Grant from Government</b>	<b>147.326</b>	<b>147.2</b>	<b>0.126</b>

32. The standard spending assessment for each main expenditure heading is shown below, together with Luton's budgeted level of expenditure (**excluding** growth proposals and savings).

<b>Table 7 - Standard Spending Assessment</b>	<b>SSA</b>	<b>Luton's Budget</b>	<b>%age variation</b>
	£m	£m	%
Education	101.9	101.9	0%
Social Services	31.8	38.6	21%
Highways	6.2	5.7	-8%
Fire	4.1	5.2	27%
Environmental, Protection, and Cultural	36.5	36.0	-1%
Capital	5.4	6.1	13%
Total	185.9	193.5	4%

33. The following points should be made:

- 1) Government have stated that the Standard Spending Assessment should not generally be taken as a guide to how much should be spent. However, it does currently determine how much grant the authority receives, and
- 2) Government has consistently emphasised that in order to meet national policies, Authorities should not spend at less than standard spending assessment on Education. The Education Bill also proposes to give the Secretary of State reserve powers to ensure the totals allocated to schools are in line with Government requirements.
- 3) A Local Government Association survey published in September 2001 showed that nationally Social Services budgets are 10.2% above SSA, and spending is 2% above budgets.
- 4) The Fire Authority budget has been well above SSA for many years. This year the Fire Authority has budgeted for an increase of 7.7%. In 2000 the Council put a motion to the LGA conference asking for Fire Authorities in unitary authority areas to be made separate precepting authorities, like the Police. The LGA accepted this, and in the White Paper the Government have announced that they will implement this for the future. However, a date has not yet been determined for this change, and for 2002/3, at least, the Council has to contain the Fire Authority costs within its part of the council tax.
- 5) The Airport Dividend enables the costs of Environmental, Protection, and Cultural services to be kept within the SSA block for these services. Prior to the Airport Concession arrangement, the Council spent significantly above SSA on those services.

34. The changes to the Grant system from 2003/4 mean that medium term forecasting is particularly uncertain this year. However, in 2001/2 the government introduced a system of 'floors' and 'ceilings' for increases in the level of general grant to local authorities. This is intended to increase stability in the grant system. Government have stated that the floors and ceilings on grant increases will continue as a key part of the new system.

35. The level of the floors and ceilings is not certain, however. In 2001/2 the floor increase was 3.2%. In 2002/3 it is 4%. The medium term forecast assumes that Luton's grant will increase by 4%, the floor level for 2002/3, in both 2003/4 and 2004/5.

36. It would not be prudent to estimate for any increase in general grant above the floor level. Luton benefits from two aspects of the current formula, adjustments for area cost in the South East, and an adjustment for ethnicity, which have been controversial for some time. Should area cost and ethnicity not form part of grant distribution in the future, Luton's share of grant will decrease. The Council is an active member of groupings making the case for retaining funding for area cost and ethnicity.

### **Budget Reduction Options**

37. The Chief Executive leads an officer Budget Challenge Team, which includes union representation, who have worked closely with Corporate Directors and Heads of Service to assess the potential for budget reductions corporately and departmentally. Departments have reacted positively to this challenge process, and as a result a comprehensive set of potential

reductions can be put forward for member consideration. In the view of myself and the Director of Corporate and Customer Services, this has been the most robust and far-reaching examination of savings options the Council has undertaken since becoming a unitary authority.

38. Every effort has been made to find reductions with a minimal effect on services to the public. Proposals have been categorised in terms of how far they affect services and jobs, and an explanation of this is attached at Appendix D. Those proposals which were deemed by the group to have a significant effect on services to the public have then been scored in terms of how far they contribute to meeting the Council's corporate objectives, their potential effect on the Vision 2010, and the extent of their effect on the public. This is in accordance with Executive decision EX/508/01, which asked for such an assessment, so that those proposals that least affect objectives and the Vision 2010 can be chosen, as a key part of the process of aligning the budget with the Council's objectives.
39. The Chief Executive has consulted the majority group (Policy Group) about the budget reduction proposals, in accordance with standing order 82, and as a result the proposals are presented in 3 lists:
- 1) those Policy Group could support for consideration by Scrutiny, Executive and Council (Budget Papers Pages 34-39)
  - 2) those not supported by Policy Group for consideration by Scrutiny, Executive and Council (Budget Papers Pages 41-43)
  - 3) those supported in principle that require further analysis before a specific budget reduction proposal can be put forward (Budget Papers Page 40)
40. Other potential areas require further investigation before specific proposals can be brought forward, and these include the potential development of a Leisure Trust, which is being considered by Scrutiny, other partnership working, further work on accommodation, and income generation (the White Paper proposes to allow Councils greater powers to charge for discretionary services).

### **Growth Items**

41. The general aim in preparing the budget has been to minimise expenditure, but there are some areas where growth has been put forward, as a result of new statutory requirements, demands on the services, and commitments that are key for achieving the Council's vision for Luton. These are set out in detail in Appendix C.

### **Budget Risks – Capping**

42. When the present Government ended the general capping of Council budgets it retained a reserve power to cap any particular Council's tax increase, should Government regard an increase as excessive. That has not happened yet, although Ministers have contacted a few Councils each year to ask them to justify high levels of tax increase. In 2001/2, this was done in private, and the names of authorities contacted were not revealed.
43. In 2001/2, the highest level of increase for a unitary authority was Telford, at 13.4%. The highest level of increase for an all-purpose authority was Wandsworth, at 16.7% (and of course the GLA tax increase was 22.7%).
44. Should the Government regard a Council Tax increase as excessive, it has the power to direct that the bills sent out be withdrawn. In that case an authority would have to cease collecting their Council Tax and re-bill based on a lower level of increase, as agreed between the authority and the Secretary of State. The costs of any re-billing exercise, including the cash flow loss, would be very significant.



45. The withdrawal of the Council Tax Subsidy Limitation scheme referred to in paragraph 31 above means that the Government will expect the need for large increases in Council Tax for 2002/3 to reduce, as the whole of the increase in tax yield can be retained to spend on local services.
46. The White Paper states that ideally, the Government's long-term goal is to dispense with capping altogether, but that it will proceed towards this goal cautiously. For now it proposes to retain the power to cap for the next few years, and has stated that it will not cap high-performing authorities. The White Paper also states that in making decisions about whether or not to use capping powers, a 'major consideration has been evidence of how local taxpayers have been engaged in decisions about council tax increases.'
47. Members should be aware that those unitary authorities with the highest percentage tax increase are very likely to be asked to justify those increases to Government.

#### **Budget Risks Other Than Capping**

48. The Council's total annual turnover is close to £300million, and it provides an extremely wide range of very different services, many of them demand-led. As a result, it faces a great variety of risks, many of which could adversely affect the overall budget. It is important in terms of corporate government and the development of a risk management strategy that the Council assesses the risks and takes steps to manage those that cannot be minimised. The major risks apparent at the moment are set out in the following paragraphs.
49. **Social Services spend continues above budget levels.** This is the biggest budget risk, based on the evidence of 2000/01 and 2001/02. It appears to be a major risk nationally, for almost all authorities with social services responsibilities. As a result the LGA led a major campaign for extra funding for 2002/3. This has not been forthcoming, although it is hoped that Social Services will feature strongly in the next comprehensive spending review, effective from 2003/4
50. In 2000/01 the Social Services overspend was in excess of £1million. In 2001/2 budget monitoring identified major spend pressures again, and while actions continue to be taken to try to minimise the overspend, it continues at more than £1million above budget.
51. The Council is only likely to be able to control its Social Services spend if it is willing to reduce provision to match budget - to operate within a cash limit. This will undoubtedly mean reviewing eligibility criteria for some services, and members are asked whether they are prepared to accept this.
52. **Social Services Grants.** The draft budget assumes that over £1.2million of Social Services Grant can be claimed with no new expenditure, by focussing current staff on outcomes required by the terms of those grants. The grant conditions have not all yet been received. It could be that new spend is required to claim some of that grant income, in which case the budget will not be sufficient.
53. **Loss of Market Income.** The draft budget assumes a loss of market income of £200k per annum, as the successful market bidder will need to invest in a refurbishment. The outcome of the market tender process is still awaited at the time of writing.
54. **Education spend pressures with increased delegation to schools.** As the central Education budget shrinks due to increased delegation to schools, the spending pressures increase. If the budget position is to be maintained, the current efforts to contain these pressures within Education will have to be continued.
55. **Bed and Breakfast costs.** Homelessness costs are currently increasing, not just in Luton but in many other unitary authorities also, and particularly in the eastern region. It is important that they

continue to be actively managed - short-term leases can reduce costs and provide a better environment for families.

56. In addition the offers of suitable accommodation for the Private Sector Leasing Scheme (PSL) from local landlords has not been at the level anticipated. As at the end of November we had only manage to place 5 families in PSLs with a further 3 in December, rather than the 20 we had hoped for. We have been pressing landlords for more accommodation and just before the Christmas / New Year break we received some encouraging indications that more suitable properties maybe coming up for offer shortly.
57. Although we have been successful in negotiating more favourable B&B rates and B&B annexes are being used more extensively, overall the numbers remaining in this type of accommodation is still much higher than estimated. At the end of December there were 28 families in B&B and 52 in B&B annexes.
58. **Corporate Savings Proposals, should they be accepted, not producing the estimated level of saving.** The practical difficulty with these savings proposals is ownership. They have been proposed by the corporate centre, but the budgets which will be reduced do not belong to the centre. The Master Vendor proposal, for example, is estimated to make £280k saving in 2002/3, being introduced part way through the year, and £560k saving in 2003/4. The saving will come from those using agency and temporary staff - particularly Social Services establishments. It is their budgets that will be reduced, and they who will have to work with the master vendor to make this a success. It is crucial that there is active management and central monitoring of both the implementation and the running of such schemes.
59. **Other budget reduction proposals not producing the estimated level of saving.** This is a real danger, particularly with proposals dependent on external income, such as sponsorship. If the Council is to keep within a balanced budget, Members, Corporate Directors, Heads of Service, Cost Centre Managers and all their staff will need to be clear that budgets will be cash-limits, and that if a particular saving does not produce the amount estimated, urgent management action will be needed to produce equivalent savings elsewhere.
60. **Costs of other initiatives, e.g. scrutiny of health service.** No provision for any new initiatives has been included in the budget and it needs to be clear that any new scheme needs to be fully funded if it is to be carried through.
61. **Unpredicted overspends in other areas.** It will be vital that managers monitor budgets carefully and take early corrective action to keep in line with budgets. This is particularly important in areas where budget reductions are approved.
62. **Pay Awards above 3%, and Prices above the estimated levels.** If the budget is to remain balanced, any such increases will mean that managers have to find further budget reductions to fund any such unbudgeted costs.
63. **Revenue Support Grant.** The Revenue Support Grant for 2003/4 and 2004/5 is very uncertain. The projections are based on the 4% 'floor' increase that has been used in the provisional settlement for 2002/3. If the 'floor' increase goes back down to the 2001/2 level, the position could worsen by £1.18million in 2003/4 and by £2.44million in 2004/5.
64. **Growth in future years.** No new growth has been included in the estimates for 2003/4 and 2004/5. The assumption has been made that any new initiatives will have to be funded by redistributing existing resources to pay for them. This may be feasible if the budget challenge group's work continues, and if best value reviews produce options for significant savings which are then taken up. It should be noted however that savings anticipated from a combination of

best value reviews and e-government for revenues and procurement have already been included in the current list of budget reduction proposals.

65. **Airport Income.** This is dependent on throughput at the airport, and hence is more risky than most rental income. The recent terrorist atrocities and subsequent turmoil within the airline industry has highlighted the volatility of the industry. The dependence of the revenue budget on the airport income argues for the maintenance of a high level of reserves, in case of a major economic downturn at the Airport.

## **RISK MANAGEMENT**

66. It is important that the Council seeks to manage and minimise those risks outlined above. In order to do so, the following budget risk management strategy is proposed:
- Cash limit all budgets, once approved.
  - Note that the Council will be locked in to achieving all the budget reduction proposals that are approved.
  - The Council will hold Heads of Service and Cost Centre Managers both accountable and responsible for keeping spend within their cash limits, while delivering the services set out in their Service Plans.
  - If a potential budget problem arises, Cost Centre Managers and Heads of Service must
    1. Notify their Finance Manager immediately.
    2. Produce a viable plan to make alternative savings to manage within the budget.
    3. Take that plan through a formal reporting process to the Departmental Management Team and/or the Corporate Directors Management Team as necessary.
  - Clear instructions will be issued to all relevant officers stating that approved budget reductions have to be delivered, and that the Council must manage within its budget.
  - The Head of Corporate Finance will produce detailed instructions on managing within cash limits
  - The Budget Challenge Group will continue to monitor the implementation of the budget reductions, to assess further proposals, and to ensure that resources continue to be redistributed in accordance with Council priorities.
  - The Council will have to live within its budget. There will be no potential for new initiatives or extra spend unless the whole costs, including administration, are funded by sources other than the Council.

## **SCALE OF CHARGES**

67. The majority of the Council's Scale of Charges were approved by Executive on 5 December, and increased from 1 January. The draft budget reflects a full year's income at those prices. There were some charges that could not be included in the previous report, and they are set out in pages 101 to 110 of the Budget Papers. The Executive is requested to approve a scale of charges for those items.

## **RESERVES**

68. At the end of 2000/01, the Council had £14.7million in its General Reserve. This includes the £600k earmarked for Invest to Save. The latest estimates are that this will be reduced by approximately £3million by the end of 2001/2, leaving around £11.7million - less than half the level of reserves the Council had at the beginning of 1998/9.
69. If the budget is balanced for 2002/3, this will leave the Council with a substantial level of reserves. Problems will arise if the budget is not balanced, and the reserves continue to decline. The White Paper proposes to place a duty on the Head of Corporate Finance to report publicly in the budget report on the adequacy of reserves, and the minimum prudent level. It also proposes to give the Secretary of State the reserve power to determine a minimum level of reserves for an authority. Currently I would estimate a minimum level for Luton to be £6.5million (this is higher

than for some authorities given the potential volatility of the airport income), so if the Council succeeds in balancing the budget for 2002/3, the level of reserves will be adequate and a reserve specifically earmarked for invest to save purposes could be created, once it is clear how much will be needed to fund any implementation costs of the savings proposals.

70. Should members proceed to create an invest to save reserve, it will be important that clear criteria are set to ensure that any invest to save proposals are rigorously assessed to ensure that they will provide a positive return. It is also important to note that as stated above, there is no provision for e-government in this budget, and it would be prudent to consider this as the first potential call on this reserve, before any other proposals are considered. If the reserve is used to fund schemes that provide a positive return, it can become an ongoing, long-term benefit to the community, with returns made being put back into the reserve, so that it continues to provide a resource to fund schemes that will produce a saving. If the money is used to fund schemes that do not provide a return, it will disappear quickly. Members should also be aware that Council reserves provide a valuable source of interest income to the Council and further consumption of reserves will reduce investment income to the revenue account.
71. It should be noted that presentationally, any use of reserves to fund expenditure will increase revenue costs in the year, so at outturn there may appear to be a budget deficit. However, provided the reserve is only used to fund genuine well-appraised invest to save projects that will enable the Council to improve its longer term budget position, and do not generate an ongoing cost, it can legitimately be stated that the underlying budget position has been balanced.

### **ROBUSTNESS OF THE BUDGET**

72. The White Paper proposes to make it a requirement that I, as Chief Finance Officer, report in public on the robustness of the budget. The base figures have been assessed by accountants, in conjunction with cost centre managers, and have been subject to a detailed officer questioning process at a three day budget 'star chamber'. Subject to the risks outlined in paragraphs 42 to 65 above, I believe the overall estimates as reported to be robust, given the inclusion of the contingency and the full adoption of cash limits for budgets.

### **PRUDENTIAL CONTROLS**

73. In order to maintain a healthy financial position, the Council will need to:
- keep to a balanced budget for future years as well as the current year;
  - reduce reliance in the long term on the airport dividend for funding the revenue budget, using it instead to finance capital schemes. Provided the capital programme is not increased in size, this will also contribute to improving the revenue position, as it will minimise the cost of capital financing.
  - 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 prudential amount of revenue reserve is always maintained – currently estimated at £6.5million, subject to any national guidance on the calculation of the appropriate level.

### **SPECIFIC OPTIONS FOR BALANCING THE BUDGET**

74. The Council has consulted the public on options for a 10%, 15%, or 20% increase in Council Tax for 2002/3, and therefore these options, combined with the growth and savings proposals put forward for consideration, are illustrated. The Council Tax increases for future years are based on the level needed to balance the budget. It should be noted that they should be seen as indicative, produced to demonstrate balanced budget plans based on the current medium term estimates.

<b>TABLE 8 - BALANCING THE BUDGET</b>	2002/3	2003/4	2004/5
<b>Option 1. 10% Tax Increase in 2002/3</b>	£M	£M	£M

Net Expenditure Prior to Growth, Savings and Council Tax (from table 3)	46.1	50.1	53.4
Council Tax Income with 10% increase	-42.7		
Savings Proposals Supported by Policy	-3.1	-4.3	-4.5
Growth Proposals	1.6	1.6	1.6
Further Savings Required from list not supported, to balance the budget	-1.9	-1.9	-1.9
Tax income required in future years to balance budget		-45.5	-48.6
This requires 6.6% tax increase in 2003/4, and 6.8% in 2004/5			

<b>BALANCING THE BUDGET</b>	2002/3	2003/4	2004/5
<b>Option 2. 15% Tax Increase in 2002/3</b>	£M	£M	£M
Net Expenditure Prior to Growth, Savings and Council Tax (from table 3)	46.1	50.1	53.4
Council Tax Income with 15% increase	-44.7		
Savings Proposals Supported by Policy	-3.1	-4.3	-4.5
Growth Proposals	1.6	1.6	1.6
Balance with 15% Increase in 2002/3	-0.1		
Tax income required for future years		-47.4	-50.5
This requires a 6% increase in 2003/4, and 6.6% in 2004/5			

<b>BALANCING THE BUDGET</b>	2002/3	2003/4	2004/5
<b>Option 3. 20% Tax Increase in 2002/3</b>	£M	£M	£M
Net Expenditure Prior to Growth, Savings and Council Tax (from table 3)	46.1	50.1	53.4
Council Tax with 20% increase	-46.6		
Savings Proposals Supported by Policy	-3.1	-4.3	-4.5
Growth Proposals	1.6	1.6	1.6
Take out Savings proposals not required with this tax increase	2.0	2.0	2.0
Tax income required in future years		-49.4	-52.5
This requires a 6% increase in 2003/4, and 6.3% in 2004/5			

### **MEDIUM TERM FINANCIAL STRATEGY**

75. The Council's current Medium Term Financial Strategy, approved in July 2000, states, as its first aim, that the Council should balance spending and income over a three year period, and then maintain a balanced budget. If the Executive is able to recommend a balanced budget to Council, that the Council accepts, this aim will have been achieved one year early. Should this be achieved, it is suggested that the overall strategy be reaffirmed, altering aim 1 only, as follows:
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.

### **RESOURCE REDISTRIBUTION**

76. The Council has been concerned to redistribute resources towards key objectives for some time, as is recognised in the medium term financial strategy set out above. The importance of this has been emphasised by the White Paper proposals, outlined in paragraph 5 above.

77. This draft budget specifically redistributes by doing the following:

- a) It suggests removing £3.1 million of expenditure in 2002/3, £4.3million in 2003/4, and £4.3million in 2004/5, that has been assessed by the Budget Challenge Group to be low priority (see paragraph 42). It also takes £810k of efficiency savings, and removes £159k of 2001/2 growth that was time-limited. These reductions enable the increased spend described below.
- b) It increases the Council's spend on Education (excluding capital charges and Government Grants) by £5.4million compared with 2001/2, meeting the Government's requirements for passporting the SSA increase to schools, increasing the proportion of funding delegated directly to schools and keeping the administration costs per pupil in line with Government guidelines. This will contribute significantly to the Council's objectives to promote lifelong learning, education, inclusion and social care, and being seen as a positive partner by schools and governors. It should also enable the Council to continue working with schools as key partners work towards the achievement of the Council's Vision 2010 goal of above average Educational achievement.
- c) It increases spend on Foster Parents by £250k, and on School Leavers requiring care by £200k, as well as proposing £738k of growth in Social Services, principally for enhancing the Council's policy of caring for people in their own homes. This will be a significant contribution to promoting social care and inclusion.
- d) It proposes allocating an additional £124k to growth in kerbside green waste collection, £95k to fridge disposal, and £184k to waste disposal, reflecting national priorities as well as facilitating improvements in the standards of services to customers, to work towards the Council's Environmental target in its vision 2010
- e) It proposes £126k to fund the revenue costs of further development in the Council's CCTV programme for Luton, which will develop the Council's active partner role with community groups and the police, and continue to work towards the Vision 2010 goal of reducing crime at a faster rate than the national average.
- f) It proposes allocating £100k to fund Best Value Policy Support officers, in order to progress the Council's objective of becoming a best value authority, aiming to ensure that all services provide best value for the taxpayers of Luton.

### **HOUSING REVENUE ACCOUNT**

78. The Budget Papers for the Housing Revenue Account (pages 22 to 24) include estimated income from the rent rise approved by Council on 29 January 2002.

### **EQUALITIES IMPLICATIONS**

79. The budget ultimately approved by Council will set the level of revenue resources directly available for equalities work.

### **FINANCIAL IMPLICATIONS**

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

### **STAFFING IMPLICATIONS**

- 81. The budget ultimately approved by Council will set the level of resources available for paying employees. The draft budget makes provision for staffing in accordance with the human resource plan, but as in previous years, allows for a 2% turnover provision and assumes that staff advertising will be paid for by holding posts vacant.
- 82. The budget reduction proposals will involve a range of existing posts to be deleted. Although many of the posts involved are currently vacant, a number of deleted posts will have redundancy implications. Some of the proposals involve further review work before the number of redundant posts can be properly assessed. In cases where a budget proposal might lead to a redundancy situation, the council's normal redeployment procedures will be applied. In previous cases the Council's track record on finding suitable alternative posts has been impressive and every effort

will be made to ensure that suitable opportunities are offered to any employee affected by the proposals put forward.

83. Council officers and members have been in close contact with Trade Unions at all stages of the budget preparation process. Trade unions were invited to attend the meetings of the Budget Challenge Group and have made a very helpful contribution to the process.
84. Consultations are currently taking place with potentially affected employees and trade unions on the basis of the proposals which are being made to the Executive. The outcome of these consultations will be provided verbally at the Executive meeting.
85. The budget includes provision for a pay award of 3%.

### **COMMUNITY SAFETY IMPLICATIONS**

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

### **COUNCILLORS CONSULTATIONS**

87. Consultation has taken place with each of the political groups on the Council.

### **SCRUTINY COMMITTEE CONSULTATIONS**

88. This report will be considered by Performance Resources and Assets Scrutiny Committee on February 7. All members of the Council have been invited to the meeting. In addition each Scrutiny Committee considered the approach to budget preparation in October/November 2001.

### **OPTIONS**

89. It is open to the Executive to recommend any level of Council Tax increase provided the level of budget reductions, growth items, and/or any contribution from reserves enables the net budget to balance with the level of tax increase proposed. The options on which public consultation took place, and the outcome of that consultation, are set out in paragraphs 14 to 17 above.

### **APPENDIX**

90. The following appendices are included with this report, **in addition to the \*'Green Book' budget papers**, that are required both for this and the Capital Programme report.

**PLEASE NOTE: GREEN BOOK BUDGET PAPERS** - Circulated to all Members with the agenda for Performance, Resources and Assets Scrutiny Committee on 7<sup>th</sup> February 2002 (to which all Members of the Council have been invited to attend) to be **retained** and used for this meeting **and for Budget Council** on 21<sup>st</sup> February 2002

Appendix A – Analysis of Variances between 2001/2 and 2002/3 Budget  
Appendix B – Education Budget Report  
Appendix C – Growth forms  
Appendix D – Guide to Savings Proposals  
Appendix E – Amendment to Budget Papers Summary

### **BACKGROUND PAPERS**

Revenue Estimate Working Papers. Contact Pam Garraway, Luton 546127