Luton Borough Council
Financial Strategy 2021/22

Purpose

1. To show how the Council intends to structure and manage its finances over the medium term, to support the achievement of the sustainable communities strategy, the corporate plan, the aims of the Council's prospectus, and those of the Council's Investment Framework.

Strategy Statement

2. The Council has previously approved the following 4 aims as the principles behind its medium term financial strategy. This overall financial strategy confirms those aims and sets out how these dovetail with the Council's wider policy and planning aims.

i) To maintain a balanced budget position, and to set a medium term financial plan demonstrating how that position will be maintained.

ii) Spending plans will be closely aligned with the Council's aims and objectives

iii) The Council will maintain a prudent level of reserves

iv) Budgets will be continually reviewed and modified to ensure that resources are targeted on key objectives.

Strategy Statement Review in light of the Covid-19 Epidemic

3. The terms of the strategy statement remain essential and relevant. However, the way in which a balanced budget is maintained needs review. The best way to manage a balanced budget is to keep it balanced every year, with no contributions from reserves. However, general reserves are maintained for exceptional circumstances when they may be needed on a one-off basis, and a time when airport dividend has reduced from £19million to nil is certainly exceptional in financial terms. Therefore, when there are times that the Section 151 officer deems truly exceptional, it is reasonable to develop an approach to balancing the budget over the medium term, rather than in a single year. However, it is essential that this approach involves maintaining a prudent level of reserves at all times, and it is vital that any sustained reduction in income, or increase in expenditure, must be met by a realignment of the budget, rather than by any attempt to use reserves on an ongoing basis. The plan should also include ways by which any the reserves can be replenish to a level which is considered prudent taking into account the level and nature of risks and uncertainties.

4. The impact of the reduction in airport dividend on the Council's budget does make very clear the extent of the risk of reliance on this income source, as has been set out in the Council's budget risk management strategy for many years. The Council does need to reduce that reliance, and proposals are set out in this strategy to do so.

Achieving the Aims of the Corporate Plan, the Luton Investment Framework and the Luton 2040 Project

5. The Corporate Plan and Luton Investment Framework are key documents setting out the Council's vision, aims and objectives for the future. To this, the Council has now added the Luton 2040 project, with its vision of Luton as a place where, by 2040, no one lives in poverty. They are all linked, and focus on improving the town for the benefit of its residents, by building economic growth and prosperity, enhancing skills and education, improving health and wellbeing, developing quality homes and infrastructure, supporting safe, strong, and cohesive communities, and creating a 'One Luton' approach to service delivery. There are specific projects and targets in terms of key areas such as job creation. The focus of the Financial Strategy is on enabling the achievement of the aims and objectives of the Corporate Plan, the Luton Investment Framework and Luton 2040 within the necessary context of maintaining a healthy financial position, as set out in the Strategy Statement above, while also ensuring that the principles set out in the Council's People Strategy are maintained.

Budget Implications – Revenue and Capital

6. The Council needs to balance its budget. The focus has to be:
   a) On the successful implementation of the action plan to achieve the aims of the Luton Investment Framework and Vision 2040;
   b) On the continued development of viable options to increase income from commercial activities and collection of debts, and optimise income from fees and charges; and ensure that the Council receives its fair share of government grants;
   c) On the development of effective preventive mechanisms to minimise demand for high cost care, homelessness and other demand led services, and.
   d) On the economy, efficiency and effectiveness of services – focusing on outcome including benefits realisation

7. The Government has previously announced its intention to move away from the revenue support grant system, and to replace this with a system based on 75% retention of increases in business rates. It is therefore critical that, the Council is successful in its strategy to become less grant dependent, which requires increasing income from other sources. Where rigorously assessed, viable plans can be developed, reserves can be used to make investments necessary to achieve those improvements in income.

8. The Council's corporate planning framework includes the following, recently refreshed core values:
   - Collaborative
   - Ambitious
   - Respectful
   - Empowering
   - Supportive

9. It is essential that the financial strategy empowers, supports, and collaborates with service providers and Councillors in an ambitious and respectful way in order to deliver the Council's objectives on behalf of the people of Luton.

10. Benchmarking information will continue to be used to assess service areas, and those that are shown to be above average in cost when compared with other 'nearest neighbour' authorities will be challenged and reviewed, and if there is not a clear policy-driven reason for the above average level of spend, will be prioritised for budget reductions. Departments will also have to look into service delivery models to ensure value for money.

11. The Council seeks to improve its own services and deliver savings through the work of its Strategic Change team and the advice of Corporate Procurement. Intelligent commissioning is also key to the council's drive to improve services and reduce costs, and to finding efficiency savings to meet the targets set in the medium term financial plan.

12. Corporate and Service Directors work corporately to achieve the maximum possible efficiency savings in all of their service areas, and approach this as a year-round task, not one that is limited to the traditional budget-setting time. This is essential if significant change projects with a long lead time are to be developed successfully. Options are considered corporately by Corporate Leadership Management Team (CLMT) in conjunction with executive members. Those options remain confidential while they are subject to draft assessment and prioritisation, to enable officers and executive members to consider options without affecting the motivation of staff working in potentially affected areas, until they are clear that the options are to be realistically considered. Once the options to be considered are clarified, they will be assessed in terms of their impact on Council priority objectives, equality impact, and values, and prioritised by CLMT and the Executive based on the budget plan and detailed consultation if necessary.

13. The budget put to Executive will be based on the Executive's assessment of the relative priorities for unavoidable expenditure pressures, and options for savings, to aim to meet the requirements of the Strategy Statement Aim 1, *to maintain a balanced budget position, and to set a medium term financial plan demonstrating how that position will be maintained*.

14. In outline, this also shows how *Spending plans will be closely aligned with the Council's aims and objectives* (Strategy Statement aim 2), and how *Budgets will be continually reviewed and modified to ensure that resources are targeted on key objectives* (Strategy Statement aim 4). This will be complemented by the Annual Budget Guidelines and Capital Programme Instructions, the Budget Report, and the Scheme of Devolved Financial Management, which, along with other documents (see below), form a core part of the Council's financial strategy process.

Capital Programme Prioritisation

15. Capital programme prioritisation is based on the Council's capital investment strategy and asset management plan. The method used and approval requirements are outlined in the Budget Report. New schemes must be robustly assessed in accordance with the principles and guidance set out in HM Treasury's 'Green Book' using the Five Case Model for the development of a project business case as described there.

16. Expenditure on major capital schemes (£10m and over) will be subject to specific review and monitoring requirements, including estimating cash flows, to enable an overall assessment of the total potential financial impact (whole life costs) of the capital programme as a whole, in order to limit the Council's exposure at any one time to schemes where an overspend could have a significant impact on the Council's overall financial health.

Resource Limitations and the Financial Strategy

17. The basis of the financial strategy is determined by the Council's current financial position. The medium term projections show that savings continue to be required in future years. The 2021/22 provisional local government settlement has been announced. For 2021/22 authorities are able to increase the level of Council Tax by up to 2% plus an additional Adult Social Care precept of 3% without needing to hold a referendum. This means that the maximum the Council can raise from Council Tax is an additional 5% in 2020/21. At this stage there is no indication of how much might be allowed in future years. Hover the MTFP assumes that government would properly fund social care or allow councils flexibility to raise additional income through a social care precepts of at least 3%. Business rates currently increase annually each April in line with the previous September's CPI, which in 2020 increased by 0.55%, although the 2021/22 increase has been frozen, with Councils receiving an equivalent government grant in compensation.

18. The capital programme is largely funded by specific resources (including interest payments on debentures from Council-owned companies). However, the core programme – basic maintenance of buildings, highways and lighting, and part of the funding for disabled facilities grants – has to be found principally from the Council's own resources. This means that there has to be a major focus on developing opportunities to achieve capital receipts without affecting revenue income. This requires commercial development of property opportunities available to the Council, where this can be achieved in line with the Council's policy on property disposal. Over the years the Council has used receipts from disposal of Council land and buildings to fund a major part of the capital programme. As a result it is proving more challenging to generate additional capital receipts as the asset base shrinks. Moreover, a likely long-term outcome of the Covid-19 epidemic is a much greater emphasis on working from home, which is likely to have a negative impact on the price and marketability of commercial property. Therefore the Council has set up a Capital Reserve to enable infrastructure funding. In future the Council may need to consider whether

this should become a sinking fund with regular contributions in order to ensure future funding of the capital programme is affordable and sustainable. This would have an impact on the revenue budget and hence has to be considered in line with the Council's other priorities.

19. The Council's resource position also means that the Council will need to take a commercial approach to increase funding wherever possible and seek alternative funding sources that will fund schemes in line with the Council's vision and values.

20. At all times however the Council's success in achieving external resources needs to be risk assessed, to ensure that the council can manage the risks taken on if the resource is accepted. In particular, as stated in paragraph 16 above, when large schemes are proposed, the risk of the overall size of the capital programme needs detailed consideration and regular monitoring and corrective measures put in place to address any overspend.

21. It is vital for the financial health of the Council that all accept the limitations and work within them to optimise the Council's position by careful prioritisation. The capital programme will principally comprise schemes funded by specific grants, replacement vehicles and equipment, plus funding up to the level of grant provided by the Government.

22. These limitations on resources mean that the Council must consider very carefully indeed every choice to spend money. They also mean that the Council can no longer afford to accept that increased demand, even for statutory services, automatically means budgets will be increased in line with that demand. Ways have to be found to provide demand-driven services within the parameters of the medium term financial plan.

Airport Funding

23. The Council normally receives an annual dividend, interest on debentures and rental income from its wholly owned subsidiary, London Luton Airport Limited (LLAL). That revenue income supports both capital projects and the revenue budget. The MTFP assumes that no dividend will be received form LLAL for the foreseeable future.

24. The extent of the funding from LLAL, and its link to passenger numbers going through the airport, means that since 1998 the airport funding has been both the Council's greatest financial asset and its greatest risk. The Council has maintained a specific risk reserve as a consequence, and its general reserve minimum level has been higher than many other Councils for the same reason. Prior to Covid-19, the underlying pattern was of substantial increased income for over 20 years.

25. However, the impact of Covid-19 and the potential operation of the force majeure clauses in the commercial contract between LLAL and the airport operator, LLAOL, has shown that in the circumstances of a pandemic impacting drastically on aviation, further action needs to be taken.

26. A Government direction under the terms of the Airports Act 1986 prevented the Council itself from being the freehold owner of the airport, hence the creation of LLAL. The Council now requires the development of a strategy that:
    a) ensures the financial stability of LLAL, and;
    b) seeks to reduce the risk to the Council's financial position arising from the extent of its reliance on airport income.

27. Proposals to stabilise LLAL and improve its governance are at the time of writing in active discussion between LBC and LLAL. The Budget report will include a recommended aim to focus the use of any future Airport dividend on the capital programme and one-off schemes, and it is proposed to undertake a review of potential options to reduce reliance on airport dividend.

28. It is also key to note that the Council's borrowing requirement has been substantially affected by the strategy of the Council providing loan financing to LLAL to enable the company to finance its capital projects, which in recent years have been very large, e.g. the DART project and the Development Control Order. Those schemes are all subject to the production of business case, and rigorous assessments of their viability, deliverability, affordability, sustainability and risks from a shareholder viewpoint. As a consequence the overall level of borrowing is very high for a Council of Luton's size. The Council has added a margin (a risk premium) to the debenture loan rate payable by LLAL, and also takes a fixed charge on the company's assets as security for the loan. Thus the underlying financial stability of LLAL is a key issue for the Council.

Housing Finance Strategy

29. The Housing Revenue Account is self-financing, and the aims are as follows:-

a) To maintain a financially healthy, balanced Housing Revenue Account, with rent levels that are affordable for tenants.
b) To ensure council-owned homes are properly maintained to at least the decent homes standard.
c) To develop new stock wherever possible within Luton that is affordable within the Housing Revenue Account and this will be part of the new Business plan.
d) To work with others to generate further housing developments outside the Housing Revenue Account wherever possible without adversely affecting the general fund; for example with Foxhall Homes.
e) To work with partners and neighbouring authorities to ensure that Luton's housing need is properly recognised and urgently addressed as a regional issue.
f) To manage the service effectively and ensure that the HRA is sustainable within the rent-setting parameters set by Government, which are currently a maximum rent increase of CPI plus 1%.

g) To address the long-term sustainability of the HRA in view of the challenges that arise from right to buy sales and the tight controls on the use of receipts, the rent reductions, and the lack of any provision in the account for repayment of principal on HRA loans.

Fees and Charges Strategy

30. The Executive's current fees and charges framework is based on the principles of viability, fairness and inclusion.

31. The following principles will be used when setting charges:

Viability	Fairness	Inclusion
The Council will aim to maximise income from fees and charges by ensuring that charges to users reflect the full cost of the service provision, unless otherwise required.	Fees and charges should be set at a level that is fair to users and council tax payers and in line with the Council's principles of equality, cohesion and inclusion. Commercial organisations should always pay the full cost for services received unless there is a statutory reason why not.	Concessions should ensure that the disadvantaged are not denied access to services.
Charging levels should take account of market demand, competition from other service providers and comparisons with charges made by other comparable local authorities.	A tough stance should be taken on fee dodging so that other users do not pay more to compensate for non-payers.	New charges should be subject to an equality impact assessment

32. The Council has to look very seriously at every option to increase income from fees and charges, but also must ensure that increasing or introducing charges is not in conflict with policy objectives, including the Council's objectives for social inclusion.

Trading Strategy

33. The Council aims to optimise trading opportunities with other public sector bodies, as defined by the Local Authority (Goods and Services) Act 1970, where

such trading can be certified by the relevant Finance Business Partner to make a positive contribution towards the Council's finances, and where the service manager can certify that it does not adversely affect the service to the people of Luton.

34. The Council has set up a trading company, Luton Traded Services Limited, to trade outside the confines of the 1970 Act, again where such trading can be certified by the relevant finance and service managers as making a positive contribution to the Council's finances without adversely affecting services to the people of Luton. Trading of any scale requires a full robust business case based on the Five Case Model, with the level of detail and analysis required in the private sector. Both the economic and financial case have to be robust and adopt the concept of whole life cost**.**

Commercialisation

35. The Council has embarked on various projects with view to generate additional income. These projects have ranged from investing in commercial properties to providing services to other authorities. Since the Government's announcement that Councils investing for yield will not have access to loans from the Public Works Loans Board (PWLB) the Council has suspended its commercial investment strategy and will not include any such investments in its capital programme. The Council is investing in residential properties with a view to reduce the cost of homelessness. This is subject to a robust business case and was approved by Executive. The capital programme also includes the provision of additional loans to Foxhall Homes, again subject to a robust business case appraised by the Council as shareholder as well as by Foxhall Homes as developer.

Value for Money

36. Each service is subject to review to maximise the savings potential, and is expected to adopt lean principles in all its activities in order to ensure that services are delivering value for money. Benchmarking and adoption of best practice will have to become the norm and regular assessments have to be carried out to ensure the Council is delivering value for money.

Council Tax Strategy

37. The Council will aim to achieve the lowest level of council tax per head of population that will provide the level of services the people of Luton need and deserve over the long term, in accordance with the Council's overall objectives.

38. Within that overall aim, the Council will seek if at all possible to keep the average tax per household below the unitary authority average, maintain the lowest level of tax within Bedfordshire, (average tax per household), and set the tax at a level that will avoid triggering a referendum.

39. More than 84% of the Council residential properties are at band C or below. The cost of homelessness has shown that there is a lack of properties in Luton designed for larger families. The Council will aim to encourage the development of properties which are valued at band D and above in order to meet the growing demand and also to ensure that the mix of properties is fairly balanced. Also the Council has been acquiring properties in order to meet the demand for such properties and hence reduce the level of overspend in the homelessness budget.

General Government Funding Strategy

40. The Government's strategy has been to encourage authorities to become self-financing, with the aim of switching from revenue support grant to increasing business rates retention, previously announcing a target of moving from the current 50% business rate retention scheme to a 75% retention scheme. This has however been delayed more than once, and a thorough review of business rates is due to report shortly.

41. A point that arose during an earlier funding consultation was that a majority of respondents proposed that 'high risk' properties, particularly power stations and airports, should be removed from local rating lists and placed on the central list. The government proposed further consideration of this option. Should this happen, it would have a very significant impact on Luton, as London Luton Airport is a major part of the Council's current rating list. It would make Luton far more reliant on the business rates 'top up', and remove the potential link between future development of the Airport providing additional business rates income for the town.

42. The previous Government confirmed its intention to continue with a system of equalisation, based on fixed periods for system resets, with the potential for partial resets. The method used for equalisation will be very important for Luton. The Council currently relies on significant top-up funding and the Revenue Support Grant, whereas some Councils will have no business rates and revenue support grant. Hence it is very important to try to ensure the move to a new system does not have a significantly negative distributional impact on the Council. The Section 151 Officer will continue to be an active member of the Unitary Treasurers Group, who are represented on the Settlement Working Party that discusses potential changes to local government funding from central government. He will ensure that the Unitary Treasurers representative is briefed on any specific issues of concern to Luton, and will check agendas and minutes accordingly.

43. The Section 151 officer will also liaise with the Local Government Association (LGA) regarding their general lobbying strategy, where required to promote Luton's interests.

44. The Chief Accountant will check that the details of the provisional grant settlement are correct prior to the end of each annual consultation period, and respond to MHCLG if there are any specific issues. The Section 151 officer will assess responses to any proposed changes by the LGA and unitary treasurers, contribute as required to protect Luton's interests, and determine whether a Luton-specific response should be made.

Pensions Strategy

45. The Council's non-teaching staff are entitled to enter the Bedfordshire Pension Fund according to statute, and all employers are required by law to encourage staff to join their workplace pension scheme, using an automatic enrolment process. Employees in the scheme are required to make contributions at nationally set percentages of their pay, and the Pension Fund is required to invest the funds it receives for the benefit of current and future pensioners. The total of employees' contributions and investment profits is not sufficient to meet the combined cost of current pensions in payment, plus the estimated future pension liability that has been earned to date by non-pensioner members of the scheme. The Council is legally required to fund the shortfall on an ongoing basis, and the amount required is determined by the Fund's actuaries, Barnett Waddingham appointed as from 1 September 2018.

46. There are 2 parts of the Council's contribution to pension costs. The first is an employer's contribution to cover the estimated value of the pension earned to date by each current employee, based on the actuary's estimates of how long current employees are likely to live and hence have a pension entitlement. This is calculated as a percentage of each current employee's pay, and the new rate is 19.5%. The second is a contribution towards recovering the estimated deficit on the costs of past service. This is dealt with as a lump-sum payment certified by the actuary as being the amount required to address the deficit as part of a 17 year deficit recovery plan. For 2021/22 this is £11m.

47. The level of deficit is not only influenced by the value of, and the return on, fund investments, but is also affected by:
    1) the increasing life-expectancy of pensioners, which means they receive a much greater level of payments over their lifetime than did their predecessors, and
    2) the low level of long-term bond rates, which are used to discount the value of future payments to pensioners. If bond interest rates increase, the pension liability will decrease.

48. The Council's strategy is to pay the annual contributions to the pension fund as certified to be required by the fund's independent actuary and also to consider making additional revenue payments when funds are available, provided that actuarial estimates of likely fund returns are greater than the level of investment

returns achievable by the Council. (Pension funds can invest in a wider variety of financial instruments than are open to the Council, including the stock market, so rewards – and risks – are potentially greater).

Reserves

49. As part of the annual budget report, the Council's Section 151 officer will estimate an adequate minimum general reserve level for the general fund, and an amount that may be required to pay towards reorganisations included in the budget. The Council will strive to maintain reserves at that level, with any additional one off surplus/gains being transferred to the Invest to Save reserve and Funding Equalisation Account, to be used in accordance with the rules of that reserve for the direct benefit of the town. It is worth pointing out that the level of reserves held by the Council is below the average when compared with statistical neighbours.

50. The minimum level of reserves for the Housing Revenue Account (HRA) was for some time set at £1.5 million in the business plan, in line with the level recommended previously by PriceWaterhouseCoopers. In view of the Grenfell Tower tragedy it was felt necessary to revise this reserve to £3m.

51. The consistent application of this part of the strategy will ensure that the Strategy Statement Aim 3 is achieved; the Council will maintain a prudent level of reserves.

Capital Receipts

52. The Service Director Fixed Assets is responsible for managing the council's property estate, in accordance with the Asset Management Plan, in order to create development opportunities, to maximise the potential for capital receipts without losing significant revenue income from asset disposals.

53. Such management will be in accordance with national and local plan guidance.

54. In special cases, members will earmark receipts from specific sites to specific projects. This will be kept to a minimum, since the general aim of achieving capital receipts is to enable the Council to maximise its capital programme, which is prioritised to enable the Council and the community to achieve their key objectives in accordance with the Local Investment Framework. For example, receipts (other than the sale of council houses) achieved as a result of the implementation of the Marsh Farm Masterplan were earmarked for the Marsh Farm development. Further areas for earmarking will require the approval of the Capital Assets Forum, Corporate Leadership Management Team, and the Executive.

55. The Council's general fund capital programme is partially funded by projections of future capital receipts. A plan to achieve the required level of receipts with no significant loss of rent (with the exception of car park income) has been produced by the Service Director, Property and Infrastructure. However, in order to develop the value of sites to avoid rent loss, many of these receipts require some years to be developed as is the case with Foxhall Homes. Options such as a joint venture to create an asset backed vehicle will also be considered if they can generate a greater level of receipts.

56. The development of potential receipts is difficult and subject to delay, changes in value, and uncertainty as the market changes, adjacent properties which would add value become available or unavailable, etc. The longer term aim is to be able to move to a position where the next year's capital programme is based on receipts actually achieved, rather than projected receipts. However, the impact of Covid-19 on the commercial property market makes this even more difficult to achieve

57. Should receipts not be produced in line with the timetable due to delay in selling the properties or shelving of projects, the programme may need further realignment and/or curtailment based on affordability.

Baseline Position

58. The Medium Term Financial Plan is a specific appendix to the Budget Report. Significant effort continues to be required to balance the budget in the medium term, hence the effort that needs to be put into developing viable income generating opportunities that are in line with the Council's priorities and values.

59. Council Tax levels per head of population remain the lowest in Bedfordshire by some distance and are currently below average for unitary authorities.

Risk Management

60. The Council produces, monitors and maintains a budget risk management strategy, and has a specific treasury risk management policy to minimise financial risks.

Documents that are also key parts of the Financial Strategy

61. The strategy depends upon the Council's Corporate Plan, and the Annual Service Plans. Other key documents that are also part of the Financial Strategy are set out below.

- Luton 2040 Vision – A place thrive
- Corporate Plan and Prospectus
- Luton Investment framework
- Asset Management Plan and Capital Strategy
- Treasury Management Strategy
- Budget and Capital Programme Report, including Budget Risk Management Strategy, Medium Term Plan and Strategy, Prudential Indicators, Protocol for the management, control and use of reserves, and Model for Assessing Levels of Affordable Borrowing
- Procurement Strategy
- Budget Monitoring timetable and reports
- Annual budget guidelines
- Capital programme instructions
- Scheme of Devolved Financial Management
- Financial Regulations
- Scheme of Cash Limits
- Housing and Homelessness strategy.
- ICT Strategy
- Transformation and Digitisation strategy