

**Luton Borough Council**

**February 2007**

**Financial Strategy**

**Purpose**

1. To show how the Council intends to structure and manage its finances over the medium term, to support the achievement of the Luton 2011 plans, and to support the achievement of the sustainable communities strategy, and the revised corporate plan, once those documents are developed.

**Strategy Statement**

2. The Council has previously approved the following 4 aims as 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*

**Achieving Luton 2011**

3. As part of the 2005/6 budget process, £4.2million was allocated over 3 years from the airport dividend to resource project management of specific transformational projects key to delivering the Luton 2011 and the Community Plan. The Council will also need to review the extent to which those projects have been achieved by the end of 2007/8, and determine whether further funding would be beneficial for the following 3 years, and an appropriate funding source. In addition, the final section of the strategy shows the direct financial planning implications for the Council of each of the Luton 2011 targets. These can be extracted and summarised as follows.

**Revenue Budget Implications for achieving Luton 2011**

4. Revenue Budget priorities include:
  - Housing the homeless
  - Empty Homes Initiatives
  - Private sector housing schemes for homelessness
  - Enhancement of disabled facilities grants for council tenants
  - Independent living for the older, disabled and vulnerable
  - Increasing fostering and adoption in Luton

- Education and Children's services – including the co-ordination of funding to protect and support children
- Key regeneration objectives
- Reducing the number of children educated outside Luton
- Youth offending
- Street Lighting
- CCTV
- Safer Luton Partnership
- 7 day street cleaning
- Maintenance of roads and pavements
- Parks and open spaces
- Tree planting
- The development of sports and leisure facilities via Active Luton
- The development of cultural, libraries, museums, and arts facilities via the soon to be formed Luton Cultural Services Trust
- Traffic management
- Planning

### **Capital Programme Implications for achieving Luton 2011**

5. Capital programme priorities include:
  - Achieving decent homes standards in public and private sector
  - House Renovation grants
  - Maintenance of the Council's buildings
  - Education
  - Building Schools for the Future, including combining schools with local community provision
  - Town centre improvements
  - Replacement street lighting
  - Replacement swimming pool
  - Capital developments that support 2011 revenue priorities and reduce running costs overall.

### **Budget Prioritisation**

6. Prioritisation does not automatically mean funding.
  - Funding is only considered where the council can be confident that it will make a difference. Specific plans related to outcomes must be produced.
  - The Council is seeking efficiency savings in all areas on an ongoing basis, in order to provide value for money to the council taxpayer and to minimise requirements for tax increases.
  - The Council needs to ensure it keeps its spending in line with the resources available. This also means reviewing the level of resources actually being achieved in terms of capital receipts, and potentially reducing the capital programme should those resources be less than estimated.

- In this context, a key part of prioritisation will be finding methods of continuing to provide and improve outcomes in priority areas, for less cost.
7. The Council's corporate planning framework also includes eight corporate values:
    - Lifelong learning for all
    - Protect and support the vulnerable, support independence
    - Promote equal opportunities, tackle disadvantage
    - Value our workforce
    - Sustainable solutions for Luton's communities
    - Open, accessible and responsive government
    - Value for money
    - Active in partnerships, ready to work with others.
  8. These values underpin how the Council is approaching the achievement of all its Luton 2011 objectives. In the financial strategy, the value for money value is particularly relevant, and emphasises the point that prioritisation of a service does not mean giving it more money.
  9. Benchmarking information will 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.
  10. The Luton Excellence project will be fundamental to the council's drive to improve service and reduce costs, and to finding efficiency savings to meet the targets set in the medium term financial plan.
  11. Each service will be set targets for efficiency savings (as a percentage of their gross budgets) based on their benchmarking, and the level of savings achieved in recent years. Support services targets will then be increased by an additional 1% to reflect the Council's prioritisation of services to the public. The options will be considered corporately by CLMT in conjunction with executive members. Those options will 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.
  12. Executive will put forward a budget based on their assessment of the relative priorities for unavoidable growth, and options for efficiency 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.*

13. 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**

14. Capital programme prioritisation is based on the Council's capital investment strategy and asset management plan. The method used is outlined in the Budget Report.
15. Expenditure on major capital schemes (£10m and over) will be subject to specific monitoring requirements, including estimating cash flows, and reviewing them as a whole, 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**

16. The basis of the financial strategy is determined by the Council's current financial position. The medium term projections show that ongoing revenue efficiency savings are required, and the Local Government Minister has made clear that authorities whose tax increases appear unduly high can expect to be capped.
17. The capital programme is largely funded by specific resources. However, the core programme – basic maintenance of buildings, highways and lighting, and funding for house renovation 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.
18. The Council's resource position also means that wherever possible the Council needs to seek alternative funding sources that will fund schemes in line with the Council's vision and values.
19. 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 15 above, when large schemes are proposed, such as Building

Schools for the Future and the Guided Busway, the risk of the overall size of the capital programme needs detailed consideration.

20. 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 capital expenditure for which the Government provides revenue support to pay for the borrowing costs (supported capital borrowing).
21. 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**

22. The Council currently receives an annual dividend from its wholly owned subsidiary, London Luton Airport Limited. From 2008/09 that dividend is expected to be wholly used in part to fund capital or transformational projects.
23. Part of the dividend was previously used for revenue funding. This has been given up to enable the Airport Company to gift aid charities who provide key services for the Luton community. Service level agreements (and for Active Luton and the Luton Cultural Services Trust, funding and management agreements) are in place to ensure that the gift aid results in outcomes supported by the Airport Company Board and the Council. This arrangement has been significantly increased by the proposed setting up of the Luton Cultural Services Trust, which increases the amount of gift aid funding to £10million per annum. This minimises the corporation tax liability that would otherwise be payable by London Luton Airport Limited.
24. The approach adopted minimises tax liability, and enables increases in dividend to be spent on non-recurring spend, rather than increasing the proportion of the revenue budget reliance on this income source. The budget risk inherent in the gift aid approach is directly addressed when setting the minimum level of reserves. .

### **Fees and Charges Strategy**

25. The Council's fees and charges strategy is:
  - to maximise income while keeping charging structures simple
  - to ensure the disadvantaged are not adversely affected
  - to avoid negative equalities impacts from increasing charges
  - to take customer resistance into account when increasing charges

- to take a commercial view of charging, recognising that increasing net yield can sometimes be achieved by lower levels of charge where additional throughput does not result in increased cost
  - to charge in line with statutory requirements
26. 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**

27. 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 departmental finance manager 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.
28. Other trading opportunities would require the Council setting up a specific local authority trading company in accordance with the Local Government Act 2003. Any proposals to trade on this basis require a full business case, including detailed options, sensitivity analysis, and risk assessment, which would need approval by the finance performance and procurement group, corporate leadership management team, and the Executive before proceeding.

**Value for Money Strategy**

29. Each service carries out an annual self assessment, and this is used as part of the evidence for setting efficiency savings targets.

**Council Tax Strategy**

30. The Council will aim to achieve the lowest level of council tax 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.
31. Within that overall aim, the Council will seek if at all possible to maintain the lowest level of tax within Bedfordshire, and will aim to set the tax at a level that will avoid capping.

**General Government Grant Strategy**

32. The Head of Corporate Finance will continue to be an active member of the Unitary Treasurers Group (he currently chairs that group), who are represented on the Settlement Working Party that discusses potential changes to the Grant Formula. He or she will ensure that the Unitary Treasurers representative is briefed on any specific issues of concern to Luton, and will check agendas and minutes accordingly.

33. The Head of Corporate Finance will also liaise with the Local Government Association (LGA) regarding their general lobbying strategy, where required to promote Luton's interests.
34. The Chief Accountant will check that the details of the provisional grant settlement are correct prior to the end of the consultation period, and respond to DCLG if there are any specific issues. The Head of Corporate Finance 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**

35. The Council's non-teaching staff are entitled to enter the Bedfordshire Pension Fund according to statute. The Council is required to fund the difference between the employee contributions, the net surplus made on investing contributions, and the total pensions payable for staff who work at Luton, past and present. Teaching staff are part of a national, non-funded scheme run by Government.
36. As at 31.3.2007, the deficit on Luton's share of the fund was £174million. The funding strategy statement says that deficits will be funded over 20 years, in order to minimise the effect on council tax.
37. Deficits have risen in recent years because of
  - 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.
38. 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 make 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 reward – and risk – are potentially greater).

### **Reserves**

39. 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 general reserve being transferred to the Invest to

Save reserve, to be used in accordance with the rules of that reserve for the direct benefit of the town.

40. The minimum level of reserves for the Housing Revenue Account (HRA) will be discussed with the external auditor. It is noted that the PriceWaterhouseCoopers report recommended reserves based upon £150 per unit. The Council will strive to improve the level of reserves included in the HRA business plan with the long-term aim of achieving the £150 per unit level.
41. 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**

42. The Head of Capital and Asset Management is responsible for managing the council's property estate in order to create development opportunities, to maximise the potential for capital receipts without losing significant revenue income from asset disposals.
43. Such management will be in accordance with national and local plan guidance.
44. 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 Luton 2011 and the community plan/sustainable community strategy. Receipts (other than the sale of council houses) achieved as a result of the implementation of the Marsh Farm Masterplan will in general be earmarked for Marsh Farm development, in partnership with the Marsh Farm development Trust. Further areas for earmarking will require the approval of the Capital Assets Forum, Corporate Leadership Management Team, and the Executive.
45. The Council's general fund capital programme 2008-2013 is based on the expectation of achieving a capital receipts target, excluding the sale of Council Housing, of £24million of capital receipts. A plan to achieve this level of receipts with no significant loss of rent has been produced by the Head of Capital and Asset Management. However, in order to develop the value of sites to avoid rent loss, the majority of these receipts require some years to be developed.
46. This type of 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.



47. Should receipts be produced more quickly, elements of the programme can be reassessed and brought forward. Should receipts not be produced in line with the timetable, the programme may need further realignment

### **Baseline Position**

48. The Medium Term Financial Plan is a specific appendix to the Budget Report. The summary financial position shows that significant efficiency savings will be needed on an ongoing basis to balance the budget in future years.
49. Council Tax levels remain the lowest in Bedfordshire by some distance and are well below average for unitary authorities.

### **Use of Resources**

50. In the latest use of resources assessment, the council scored a 3 overall, out of a maximum of 4. 3 means consistently above minimum requirements – performing well.

### **Risk Management**

51. The Council produces, monitors and maintains a budget risk management strategy, and has a specific treasury risk management policy to minimise financial risks. The projects put forward by Luton Excellence will also be risk assessed as a key part of the approval process.

### **Documents that are also key parts of the Financial Strategy**

52. 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.
- Capital Strategy
  - Asset Management Plan
  - 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

## APPENDIX D

Luton 2011 Priority	Luton 2011 Target	Financial Planning Implications
<p><b>Deprivation</b></p> <p>The Council believes strongly in the reduction of social exclusion and deprivation.</p> <p>Seven indicators are used by the Government to measure deprivation: Income, education, employment, health, housing, access to services and child poverty.</p> <p>To reduce deprivation all these interlinked issues must be addressed.</p> <p>Biscot and Dallow wards are currently in the 10% most deprived wards in England, but there are pockets of deprivation in all wards, and action will be taken to assist individuals on a needs-related basis as well as assistance for neighbourhoods.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• All wards will improve rating in Government deprivation indices</li> <li>• No ward will be in 10% most deprived in England</li> <li>• We will bring at least 60 long-term empty houses back into occupation each year</li> <li>• We will eliminate the use of B&amp;B accommodation in housing the homeless, except for short-term emergencies</li> </ul> <p>See also the targets under Economic Regeneration, Education and Health and Social Care.</p>	<p>Specifics:</p> <p>Revenue: continue to resource and prioritise housing the homeless, empty homes initiatives, private sector leasing schemes for homelessness, independent living for the older and the disabled, increase fostering and adoption for children taken into council care</p> <p>Capital: aim to continue to use some of the Council's own resources to supplement government support for house renovation grants</p> <p>General: Aim to ensure decent homes standards achieved in both public &amp; private sectors, and children</p> <p>Focus on Children's Services &amp; Regeneration</p>
<p><b>Economic Regeneration</b></p> <p>The regeneration of the local economy will secure the future of Luton. We need to improve the built and natural environment, provide the infrastructure for business to thrive, and ensure the local workforce is well-trained and able to take up high-paying jobs available locally.</p> <p>In October 2003, Luton's claimant unemployment rate was 3%, compared to an overall East of England rate of 1.7%. However, unemployment had decreased by 1.2% in a year, compared to a 0.5% increase across the East of England as a whole.</p> <p>Unemployment is highest in Biscot and Dallow wards, among men, and among Black and South Asian minority ethnic groups. Compared to the East of England, a higher percentage of unemployed people are under 40 years of age, and/or have been unemployed for more than 6 months.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• Employment level to be above the East of England average</li> <li>• Full implementation of the Town Centre Master Plan</li> <li>• To increase job density substantially</li> </ul> <p><i>Job density is the number of filled jobs in an area divided by the working age population resident in that area</i></p> <p>See also the targets under Education and Transport and Traffic.</p>	<p>Continue to fund regeneration objectives in partnership with local business, ensure local business have equal access to bidding for Council contracts, maintain core council service provision in Luton (links with HR strategy aim to be the employer of choice), complete Town Centre Improvements, Luton Station Gateway capital projects. Work with partners to develop the Butterfield business park.</p>

<p><b>Education</b></p> <p>Educational attainment is a key determinant of life chances. In schools, Luton's pupils' performance overall is generally below average compared to other parts of England. This is not acceptable.</p> <p>For everyone though, education and learning opportunities are life-enriching, and the Council seeks to create a learning society in Luton, with opportunities for vocational and non-vocational learning at all ages, and a rich curriculum in local schools.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• Educational achievement levels at all stages to be above the national average.</li> <li>• Work with Learning and Skills Council, colleges and Connexions to increase the percentage of the Luton workforce who are vocationally qualified to at least NVQ2 or equivalent</li> <li>• Increase community use of school facilities</li> </ul>	<p>Continue to prioritise Education within revenue and capital budget setting process.</p> <p>Reduce the percentage of children educated outside the borough, thereby reducing costs</p> <p>Transform Luton's schools via the Building Schools for the Future (BSF) project, acknowledging that major savings will need to be found in both schools and non-schools budgets to enable the schools and the council to fund the ongoing costs of maintaining the improvements in future years</p> <p>Aim to develop community use as part of BSF, provided this can be done with no additional revenue costs.</p>
<p><b>Crime</b></p> <p>In a survey conducted in 2001, only 62% of people in Luton felt safe from crime. Fear of crime is a major concern expressed by Luton residents. Crime and fear of crime carry a heavy cost, not just financial, but on people's sense of well-being and their ability to go about their daily business. The Council will work through the Safer Luton Partnership to reduce crime and fear of crime, through the Youth Offending Team, CCTV, street lighting, car parking, anti-drugs initiatives, neighbourhood wardens, consumer protection etc.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• Luton residents to have less fear of crime than three quarters of similar urban areas in England.</li> <li>• Achieve a substantial reduction in residents' concern about anti-social behaviour</li> </ul> <p>Reduce the number of young people who are victims of crime</p>	<p>Revenue: Continue to prioritise the Youth Offending Team, street lighting &amp; CCTV within revenue budget setting.</p> <p>Strengthen the crime and disorder reduction partnership</p> <p>Capital: continue to prioritise replacement street lighting highly within the limitations council funded capital resources.</p>
<p><b>Environment</b></p> <p>A clean, tidy and green environment is a key priority for local residents.</p>	<p><i>Our targets for 2011</i></p> <p>a) Over 75% of the people of Luton to be satisfied with each of the following:</p> <ul style="list-style-type: none"> <li>• Street cleansing</li> <li>• Parks and open spaces</li> <li>• Abandoned vehicles</li> <li>• Noise</li> <li>• Pollution</li> <li>• Maintenance of roads and pavements</li> <li>• The built environment</li> </ul> <p>b) A greener Luton, with a significant increase in the number of trees</p>	<p>Continue to prioritise street cleaning, and budget to ensure that roads and pavements are maintained adequately.</p> <p>Improve parks and open spaces with external funding where obtained.</p> <p>Continue to maintain the Council's own buildings, and provide sufficient funding to enable planning to contribute positively to and ensure the standards of new development.</p>

<p><b>Leisure</b></p> <p>Residents, young and old, want more leisure opportunities in Luton. Luton has few performance venues and few leisure facilities for young people.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• 10% more of the people of Luton are satisfied with the town's cultural and recreational facilities, including sports/leisure, theatres/concert halls, museums, libraries, parks, community facilities/amenities and open spaces</li> <li>• In 2011, 40% of the population will have a library card that they use on a regular basis'</li> </ul>	<p>Improve swimming and leisure facilities, in principle via the development of a trust and the replacement of the Wardown facility.</p> <p>Fund the Museum service at a level that enables it to receive renaissance in the regions funding, and capital for Stockwood development.</p>
<p><b>Health and Social Care</b></p> <p>In common with the rest of England, Luton's major health problems are cancer, coronary heart disease, diabetes, strokes, childhood diseases and mental health problems. However, Luton also has higher than average numbers of deaths caused by respiratory disease, and through perinatal mortality. Sexual health issues, teenage pregnancies and sexually transmitted diseases are also above average. The Council can help to improve local people's health through education and outreach work, through the Environmental Health service and by improving local housing and reducing social exclusion. People are more vulnerable to particular diseases according to their age, gender, income and ethnicity, so efforts to improve health will be tailored to the needs of different groups.</p> <p>Social Care plays a pivotal role in protecting vulnerable people and promoting their independence. The Council will help older and vulnerable residents to live independently in their own homes should they wish, and will implement the <i>Supporting People</i> agenda. The Council will support children in its care as a good corporate parent, promoting their health and education, providing adoption and stable foster placements, and looking after their welfare when they leave care. We will co-ordinate our work to protect and support children, following the best practice in <i>Every Child Matters</i>.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• Halve the gap between life expectancy of people in Luton and the rest of the country</li> <li>• Bring death rate for babies in Luton down to the national average.</li> <li>• Increase proportion of people misusing drugs or alcohol who receive treatment and target resources towards the prevention of such misuse</li> <li>• Increase proportion of people aged over 65 and vulnerable adults, supported by the Council to continue to live independently in their own homes.</li> <li>• At least 75% of young people leaving care to go into employment, education or training</li> </ul>	<p>Ensure the improvement of local housing, both public and private sector</p> <p>Focus funding for support to the older and vulnerable on independent living</p> <p>Co-ordinate funding to protect and support children</p>
<p><b>Transport</b></p> <p>It is important to reduce traffic congestion and provide adequate parking, and also to make Luton a comfortable town in which to walk or cycle.</p>	<p><i>Our targets for 2011</i></p> <ul style="list-style-type: none"> <li>• Increase use of public transport for travel to Luton Town centre by 15% when compared to 1999 levels.</li> <li>• Increase walking and/or cycling as a % of total journeys in Luton</li> </ul>	<p>Fund the traffic management programme, the promotion of walking and cycling</p>

