BUDGET REPORT

BUDGET 2008/09 AND CAPITAL PROGRAMME 2008/2013

1. **OVERVIEW**

2. The budget for 2008/09 and the capital programme for 2008-2013 have been driven by:
   
   - the aspirations of the Council’s Corporate Plan, incorporating the 2007 Addendum, Luton 2011, and departmental service plan objectives;
   - the need to match expenditure to estimated resources;
   - the need to reprioritise expenditure to ensure statutory requirements are met, where demand or required standards have increased; and
   - the need to maximise efficiencies throughout the Council’s services, in order to avoid reductions in the quality of service to the public.

3. The budget proposals for growth and savings were those made by the Corporate Leadership Management Team, following consultation, for consideration by the Executive and Council.

4. This budget includes £7.2 million of growth and unavoidable cost increases identified as part of the 2008/09 budget process, in addition to the £1.8 million of 2008/09 cost increases over and above inflation identified as part of the 2007/08 budget process. To pay for this there are £5.4 million of efficiency savings shown in Appendix C, and in addition:
   
   - No inflationary increases have been allowed in budgets for supplies and services, except where there is a specific contractual requirement. This effectively incorporates a further £600k of procurement savings within the base budget
   - As the 10 December Executive report on tax setting acknowledged, the tax base assumes additional collection from the review of eligibility for single person discounts, and the increased focus on collection. This effectively incorporates a further £500k of income improvements into the base budget over and above £500k from increasing numbers of dwellings.

5. This budget therefore represents a major reprioritisation of spend, in line with the Council’s strategic aim to review and modify the budget continually to ensure resources are targeted on key objectives (see para. 25, Medium Term Financial Strategy), and to ensure the Council meets its statutory responsibilities. The major areas of increased spend are:
   
   - £3.3 million (including £1 million identified in 2007/08) for adult social care, in line with the Council’s key priority to ensure dignity and respect for older and vulnerable adults. This reflects the demographic increases in numbers of elderly requiring home, residential and nursing care, together with increases in the numbers of younger adults with severe physical or learning disabilities who require care packages.
   - £1.2 million (including £600k identified in 2007/08) in increased costs of recycling and waste disposal, improving still further Luton’s recycling via the introduction of more glass collection, developing food waste collection, and reflecting increased contract costs and the additional landfill tax announced in the 2007 budget.
• £600k cost to the Council and the local taxpayer, over and above the specific Government grant, of the Government’s free bus travel scheme for those entitled to concessionary fares.
• Almost £600k additional costs of school and special educational needs transport.
• Almost £500k to increase the corporate capacity of the council, particularly in the Chief Executive’s department, to respond to the challenges of place shaping, and of improving partnerships, and to provide resources to support community safety and the crime and disorder reduction partnership.
• £400k, rising to £1.3m in 2009/10, as part of the Council’s contribution to the Building Schools for the Future project, to transform the facilities available for education in the town.
• There is also growth in accordance with the manifesto commitments of the administration, in terms of the restoration of the community development service level, the mobile library, landlord accreditation and housing enabling officers, the summer festival, fireworks spectacular, carnival costs, and discretionary rate relief.

6. Every service area has been challenged to produce a value for money assessment (all reported to Scrutiny Committees on 13 December) and initial efficiency savings targets were set on a differential basis, using benchmarking data and the amount of savings achieved in recent years, so those who had produced the least efficiency savings options in the recent past, and who were high cost, or had no cost benchmarking data had the highest targets. In addition, a 1% addition to targets was given to support services, reflecting the prioritisation of front-line service provision. This was as set out in the Budget Guidelines approved by Executive on 10 September. Not all services were able to achieve those targets (it is not easy to produce major short-term efficiency savings in demand-driven services such as Social Care). The options produced were then assessed on a corporate basis, with the aim of meeting the Executive’s clear aim that the budget be balanced without cuts in services to the public.

7. It should also be noted that the creation of a charitable Cultural Services Trust, funded by donations from London Luton Airport Limited, is a fundamental part of the budget strategy. Overall, this reduces costs by approximately £1.4million.

8. The capital programme represents major development for the town, in relation to schools, public transport, roads and the town centre, funded by specific grants. The council’s own funding is limited, and the basic programme is similar to last year’s, but with an increase in health and safety related property maintenance.

OTHER KEY ISSUES

Council Tax Capping

9. The Ministerial announcement that accompanied the provisional grant settlement stated the Government expects the average council tax increase to be ‘substantially less than 5%’, and that the Government will not hesitate to use its capping powers if it deems this necessary.
10. The Government has again emphasised that it will not announce its criteria for capping in advance. The Government can use tax increases and budget increases, and can if it wishes look at more than one year. Any council setting a tax increase above 5% runs a high risk of being capped, and while Police Authorities were given more latitude last year (Durham had a 34.6% increase, and Lancashire 11.4%, without being capped) increases well in excess of 5% for either police or fire are also inherently risky. Capping involves Government forcing an authority to reset its Council Tax at a lower level, determined by the government, part way through the year. If this happened, further savings would have to be found, not just to balance the budget, but also to meet the additional costs of rebilling. Also, capping is likely to increase non-payment of Council Tax, which would be another unbudgeted cost.

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

11. This year, for the first time, following the comprehensive spending review (CSR07), the government has announced grant figures for the next three years. The final determination for 2008/09 and the provisional determinations for the following two years are set out in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Formula Grant Increase</th>
<th>Formula Grant amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>5.9</td>
<td>83.4</td>
</tr>
<tr>
<td>2009/10</td>
<td>4.1</td>
<td>86.8</td>
</tr>
<tr>
<td>2010/11</td>
<td>3.6</td>
<td>89.9</td>
</tr>
</tbody>
</table>

12. The level of grant increase is much greater than expected in the 2007/08 medium term financial plan, and the 3 year figures are also extremely helpful in medium term planning. It is important that the Council takes advantage of this opportunity. (Please note that the percentage increases are as calculated by government based on a like for like comparison, allowing for changes between years in functions funded via formula grant.) Further detail of the formula grant settlement is shown in Appendix F.

13. Formula grant is only one part of the funding equation. The Dedicated Schools Grant (DSG) funds schools directly, as well as funding some functions carried out by the Council on behalf of schools. This means that schools are no longer funded from the Council Tax, unless the Council chooses to make contributions in excess of the DSG. The amount of DSG depends on actual pupil numbers in 2008/09, as there is a guaranteed per pupil grant increase. Hence the grant is provisional until May. The Government announced provisional figures in November, based on the information available to them at the time, but emphasised that authorities should make their own estimates based on their latest pupil data. For Luton the per-pupil increase is 4.2% 2008/09, 3.6% for 2009/10, and 4.1% for 2010/11. The allocation of the DSG has to be agreed with the Schools Forum, which meets after the publication of this report. Any disagreement may be referred to the Secretary of State for arbitration.

14. Many specific government grants have been incorporated into a single Area Based Grant for 2008/09 onwards. This also includes the funding for the Connexions Service, which moves to the Council with effect from 1 April 2008.
15. The area based grant is intended to be a key part of the development of local partnership working. It totals £9.929m. The funding is legally the Council’s, as the accountable body, for allocation, but the Local Public Service Board (LPSB) is intended to have an important role in the allocation process. Unfortunately there are 2 issues with this for 2008/09.

- The vast majority of the funding is a transfer of existing grants that pay for key services, which are already contractually committed.
- The grant announcement for 2008/09 was too late to enable local authorities to consider any reprioritisation of the amounts given for existing services.

16. Consultation with other unitary authorities shows that as a result of these issues, none has been able to do more than continue with the 2007/08 allocations. The issue of reprioritisation will need to be looked at for the future, noting that the funding is for the achievement of all 198 performance indicators, not just the 35 key indicators that the partnership will focus on in future, and also noting the implications on services and jobs of moving funding away from current commitments. The outline allocation of the area based grant, as set out by government, is shown in Appendix F. It should be noted that the accounting guidance on the area based grant states that it should be regarded as a single general grant, like the formula grant, so in future it will not be allocated against specific spend areas. It should also be noted that the key performance indicators will be funded by resources other than the area based grant. A key task for future development will be to establish, so far as is possible, the resources that are being put into achieving the key indicators.

**Value for Money**

17. The need to seek value for money has been at the core of the Council’s plans on an ongoing basis for many years. This has been further strengthened by the current administration’s determination to avoid service reductions, and instead to focus on efficiency throughout the Council, in particular by adopting the ‘lean’ approach to service excellence and cost reduction.

18. The value for money self-assessments considered by Scrutiny Committees on 13 December provide the base information. Differential savings targets were set based on benchmarking data and past savings, as described in paragraph 6 above. The Luton Excellence project, previously reported to Executive, is intended to carry forward a substantial programme, simultaneously improving service and reducing cost, learning lessons from the Council’s previous business partnership with Atos. Benchmarking has been used to assess areas for review via an evidence based budgeting process, and currently reviews of the Human Resources and Information Management functions across the authority are taking place.

19. It should be noted that using some comparators Education services appear above average in cost (although significant reductions in this area have been made, both in past budgets, and in this one), and yet the major measures of educational attainment in Luton are below the national average. However, investment has had significant results: there are currently no Luton schools in special measures, the APA review judged Luton to be one of the best education authorities in the Eastern region of England, and there have been real improvements in pupil performance. Similarly, Luton’s refuse collection and
BACKGROUND

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

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

22. In the long-term, the aim must be to have sustainable levels of revenue budget and capital programme focused on council priorities that will enable the council to achieve the targets in Luton 2011 and the sustainable community strategy that is currently being developed, meet its statutory requirements, enable the targets in the community plan to be met, satisfy the aspirations of residents, demonstrate best value, and keep the Council Tax at affordable levels. This is a very demanding aim. Budget setting in any one year cannot be seen in isolation from the medium-term projections and this long-term aim.

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

- **Grant dependency.** The Council’s prime source of income is via grant from central Government. The total available for Local Government, and the division of that total between authorities, varies each year, although this year’s 3 year announcement is extremely helpful.

- **Demand-led Spend.** Many areas of the Council’s spend are demand-led, and have to be provided in accordance with statute. Costs of service provision to the vulnerable – in particular the elderly, children in care, and children and adults with complex disabilities – continue to increase, as the numbers requiring complex care increases, and the costs of that care increase also. As life expectancy continues to increase, the numbers of the elderly, and the costs of caring for the elderly also increase by a much greater rate than the normal inflation factor.

- **The need to reduce the amount of waste sent to landfill.** This is one of the biggest financial issues facing councils. Each council has a target to reduce progressively the amount sent to landfill every year. Those targets are designed to ensure the government meets national targets set by the EU. If the national targets are not met in specified years, the EU will fine the UK, and the Government has made it clear that it will pass those fines on to the individual councils that fail to meet their targets. The potential scale of the fines could bankrupt councils. The potential cost of alternative methods of disposal is almost as great as the costs of the fines, however, and finding
cost-effective, environmentally friendly methods of disposal, alongside maximising recycling, is one of the biggest issues for councils now.

- **Future carbon reduction commitment (CRC) targets.** The government has indicated that in future, targets for carbon reduction are likely to appear alongside landfill targets. However, the Government has not yet produced its proposed scheme, and has stated that the earliest it will apply is from 2010.

- **The need to produce a 5-year capital programme that is fully resourced.**

- **The financial risks surrounding major capital schemes, both individually, and in terms of their combined effect.** The programme includes some very major schemes which are funded by way of capital grant: Building Schools for the Future, The guided busway, the East Luton Corridor, and the Luton Station gateway. Given the scale of these schemes, the Council needs to consider their risks, not only as individual schemes, but also in terms of their potential collective impact - for example, if all of those schemes overspent by a few percent, the Council’s entire reserves would be wiped out. This is considered further in Appendix B.

- The budgetary dependence on London Luton Airport Limited funding trusts and voluntary organisations via charitable donations that qualify for gift aid. The overall level has now reached £10million. This is considered further in Appendix B.

- A level of Council Tax in 2007/08 that is well below the average of unitary authorities, and much lower than that of the rest of Bedfordshire.

- An exceptionally low yield from any increase in Council Tax, due to the fact that 84% of Luton’s properties are in tax bands A, B, or C, and the number currently receiving single person discount is also above average. 1% on the Council Tax yields just £560k.

- The Council cannot increase its part of the dedicated schools spend by more than the percentage increase in schools spend, without the agreement of the schools forum.
2008/09 REVENUE BUDGET

24. For some years the Council has aimed to set a balanced budget without the use of reserves to pay for ongoing revenue expenditure. It is fundamental to the Council’s current medium term financial strategy, which was re-affirmed by the Budget Council in February 2007 as part of last year’s budget-setting process. Key decisions for members were the following.

- Could the Council set a balanced budget for ongoing expenditure with no contribution from reserves for 2008/09?
- Could the Council re-affirm the principles of the medium term financial strategy?
- If the Council needed to use reserves to balance the budget for ongoing expenditure in 2008/09, how will those key principles be changed?

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

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

26. The base budget was prepared by:

- budgeting for staffing at current establishment levels, less allowances for staff turnover (which over all departments now totals £3million), and allowing up to 2.5% for pay awards (more than the government’s guideline, but significantly less than the public sector unions have asked for);
- budgeting for supplies and services on the basis of no increase, except where contracts specifically require one (this has incorporated £600k of procurement efficiency savings into the base budget, when compared with the authority’s previous practice of allowing inflationary increases on such items).

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

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

Comparison of 2008/09 with 2007/08

29. A comparison between the 2007/08 budget and the 2008/09 budget is shown at Appendix A.
BUDGET PRIORITISATION

30. In addition to the base budget, options have been put forward for growth and efficiency savings. In contrast with previous years, no further, non-efficiency savings have been considered. The options have been assessed in accordance with their impact on the Council’s priorities and values. This is shown and explained in Appendix C.

31. When considering options, members also considered the wider context, such as inspection reports and recommendations, the developing local area agreement and sustainable communities strategy, Government priorities (which have been explicitly set out in relation to the use of the Dedicated Schools Grant), and potential long term implications. For example the medium term and long-term potential for fines and costs associated with waste disposal and the landfill allowance trading scheme make investment in diverting biodegradable waste from landfill very important from a financial as well as environmental viewpoint.

BUDGET CONSULTATION

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

33. The number of respondents this year has increased compared with last year, but is not statistically significant. Feedback is provided in Appendix E.

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

35. This report was also sent to the Luton Forum and any views received were reported to the Executive meeting.

36. There is also a statutory requirement to consult representatives of national non-domestic ratepayers. Any views received were reported to the Executive meeting.

COLLECTION FUND

37. The Executive delegated authority to me to determine the estimated surplus or deficit on the Council’s collection fund each year (EX/3/01). Accordingly I have estimated that Luton’s share of the deficit is £486,000. (The total deficit is £580,000 and this is shared between the Police Authority, the Fire Authority, and this Council.)

BUDGET UNCERTAINTIES

38. At the time of originally writing this report, uncertainties included:

- the Executive’s view of the proposals in this report, including growth, savings, and Council Tax level;
The extent of funding to prevent violent extremism (a 2007/08 grant that is proposed to go into the Area Based Grant for 2008/09).

BUDGET RISK MANAGEMENT STRATEGY FOR 2008/09

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

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

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

LOCAL AUTHORITY BUSINESS GROWTH INCENTIVE SCHEME (LABGI)

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

43. 2008/09 is due to be the final year of the current LABGI allocations, and announcements were initially expected at the end of February. However, the Government has been forced to announce, due to the potential for continuing court challenge to the basis of allocation, that no date for the announcement can be given.

44. The council cannot expect significant funding from this source for 2008/09, and nothing can be expected for the future either, as for 2009/10 no national funding is available for LABGI, and for 2010/11 and 2011/12 a new scheme (yet to be announced) will be in operation, and the total available for allocation will be significantly reduced from the amounts provided in the current scheme.

CAPITAL PROGRAMME 2008/13

45. The Council’s Capital Strategy (which has been updated as Appendix O) provides a framework for adopting a long-term capital investment planning process aimed at supporting the targets set out in Luton 2011 and trying to maintain existing assets within the resources available. Integration of capital and revenue budgets is a high priority and the Council has adopted best practice in relation to use of resources by agreeing a fully resourced five-year programme that is linked to the corporate and service asset management plans.
46. The Council has managed to achieve major funding from external sources, which means that the programme is a large one for a Council, the size of Luton. The level of funding available from the Council’s resources is, however, very limited, which impacts upon basic maintenance programmes for all infrastructure. The condition of the buildings (backlog maintenance), in particular, impacts upon service delivery.

47. The 5-year programme includes £532million of capital projects, £39million for the Housing Revenue Account and £493million for the General Fund. The general projects can be analysed as follows:

![5 Year Capital Programme]

48. Significant projects over the 5-year programme include Building Schools for the Future (£189million starting in 2009/10); the Primary Capital Programme (£13million Starting 2009/10); Luton Dunstable Busway (£84.2million starting in 2008/9); Luton Station Gateway (£17 million of which £4.8million is scheduled for 2007/8 and £12.2million in 2008/9); Luton Town Centre Transport Scheme (£16.9million starting in 2009/10); Stockwood Park Museum Redevelopment (£6million to be completed in 2008/9) and the Swimming Pool Replacement (£10million with the majority being spent in 2009/10 dependent upon external funding being found).

49. The programme endeavours to address the following key issues:
   - Maintenance backlogs and increasing the proportion of expenditure on planned as opposed to reactive maintenance;
   - The risks of reliance upon capital receipts in an increasingly fragile property market;
   - Funding key manifesto commitments.

50. The key additions to the programme are as follows:
   - Modernisation of day services (£3.4million, starting in 2008/9);
   - BSF/Reshaping the Estate (£5.65million, starting in 2010/11);
   - Office of the Future Pathfinder (£1.125million, starting in 2008/9);
• Energy Conservation (£150,000 in 2008/9);
• Increasing property maintenance to £3million per annum in the final 3 years of the programme;
• Increasing Housing Renovation Grants to £2.3million per annum;
• Street Lighting Replacement in the last year of the programme (£650,000);
• Highways Health and Safety in the last year of the programme (£600,000); and
• Provision of the Shelter at the Vale Cemetery (£300,000 in 2008/09).

51. A small number of projects (totalling £1.075 million) that do not contribute towards a strategic investment plan have been deleted, these are:
• Refurbishment of offices (now covered under the office of the future pathfinder);
• Lift replacements (to be dealt with under planned maintenance programmes); and
• Acquisition of sundry properties to be funded on a case-by-case basis through the contingency fund.

52. The programme aims to reflect the principles of the Reshaping the Estate initiative which aims to deliver the vision for assets and which will be the strategic framework which will form the key component of the revised asset management plan. The revised asset management plan is attached. This document will be further developed through consultation with officers and Members during 2008/09. In particular a detailed implementation plan for Reshaping the Estate will be produced.

53. Closely linked with the asset management plan is the capital strategy. The availability of resources will impact upon the delivery of the asset management plan, but it is anticipated that the asset management plan will facilitate prioritisation of investment into a smaller number of strategically located property assets for both frontline and backroom services. A planned maintenance/investment programme will be available for inclusion in the 2009/14 programme. The asset management plan will also provide a basis for strategic attraction.

54. Included within the programme are 3 projects (Office the Future Pathway, Telephone Switch Upgrade and Energy Conservation) that are to be funded through prudential borrowing and which have been developed in conjunction with Luton Excellence as invest to save initiatives.

55. Reliance upon capital receipts from property sales to resource the Council funded element of the programme has been identified as a major risk, particularly in the face of a less buoyant property market. Inclusion of invest to save initiatives serves to reduce the reliance upon capital receipts and injection of additional resources from LLA dividends in 2011/12 (£6.7 million) and 2012/13 (£7 million) provides a contingency should receipts forecast at the end of the programme not materialise. Usable capital receipts from Right to Buy sales have been also been reduced from £11.68m to £8.92m for the programme to reflect the weakening housing market. Additional resources could be generated through the establishment of a housing development partnership, the level of these receipts would be dependent upon the terms agreed for the provision of social housing and the amount of housing Corporation Grant available, this gives the Council the flexibility to decide at a later date whether to take cash or benefits ‘in kind’ in the form of social housing provision.
56. The projects included within the programme will also contribute towards delivery of Reshaping the Estate through major initiatives such as Building Schools for the Future and the Primary Capital Programme, meeting the Future Living Needs of Older People, Day Services Modernisation and the Marsh Farm Masterplanning Exercise.

**SCALE OF CHARGES**

57. The majority of the Council's Scale of Charges were approved by Executive on 13 November 2006, and increased from 1 January 2007. The budget reflects a full year’s income at those prices. There were some charges that could not be included in the previous report, and some that need to be increased in line with proposals to increase income set out in Appendix C. The amendments to the Scale of Charges are set out on the yellow pages of the 'Green Book' Budget Papers. The Executive was requested to approve a scale of charges for those items.

**RESERVES**

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

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

59. Attached as Appendix I is a table showing a recommended protocol for each reserve, setting out its purpose, how and when it can be used, and procedures for management and control. Also included in the table are estimated balances and estimates of the potential use of reserves in 2008/09. It is recommended that all the reserves continue to be reviewed annually as part of this budget report, in order to ensure continuing relevance and adequacy.

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

61. The Local Government Act 2003 makes it a requirement that the Head of Corporate Finance reports in public on the robustness of budget proposals. This report was presented to Council as part of the Executive’s budget proposal and is attached at Appendix P.

FINANCIAL HEALTH CHECK

62. This financial review is divided into 2 parts:
   - A review of the council’s financial services functions, covering capacity, resourcing, and training.
   - A review of the council’s financial management arrangements.

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

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

65. The service has the capacity to carry out its current work programme. The issues to be raised are that:
   - the service has not assessed, and is not resourced to assess, the extent of subsidy the Council provides on many of the services that it charges for;
   - the service is not resourced to carry out a zero-based budgeting approach for the council
   - the service provides limited monthly accruals as part of budget monitoring, and does not produce balance sheets except at the year end. The Audit Commission’s publication ‘World Class Financial Management’ suggests that
authorities should work towards this, in order to focus more on balance sheet management. Again, this is a resource issue, and any future proposals for development will need to be set against demands in statutory services, such as care, and the context of the limited funds available to authorities.

66. The financial services review does not include the Revenues service, which is subject to separate review, but it may be noted that the audit qualifications in respect of non-domestic rates in past years, and of the housing benefits subsidy claim in 2006/07, is a financial management concern.

67. The Executive reviewed and developed its financial management approach in September 2007, to improve in year predictions of outturn. In order to maintain a healthy financial position, the Council will need to continue to do the following.

- Keep to the balanced budget position.
- Work towards a capital programme that spends resources when they are received, rather than prior to their receipt.
- Manage the capital programme overall to limit the amount of financial risk at any one time from large-scale capital schemes, by contracting in ways that minimise risks of overspend, and timetable schemes to avoid many large-scale financial risks being taken on at any one time, to minimise the risk of the Council being left with cost overruns, and/or additional revenue impact.
- Continue to develop the value for money culture, and embed the Luton Excellence project throughout the Council, so that the organisation is continually improving its customer service and providing more for less.
- Work towards the development of a revenue budget of a size that is sustainable in the long term, so that increases in pay and prices, net of efficiency savings, are in line with likely levels of increase in grant support together with acceptable increases in Council Tax yield.
- Use one-off financial windfalls to fund one-off, non-recurring schemes, so that the underlying spend is funded by underlying income, and the long-term budget situation remains balanced.
- Ensure that a prudent amount of revenue reserve is always maintained.

FINANCIAL STRATEGY

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

COUNCIL TAX LEVELS

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

EQUALITIES IMPLICATIONS

70. The budget ultimately approved by Council sets the level of revenue resources directly available for equalities work. Managers have made initial assessments of the equalities impacts of budget savings and these are being evaluated by the
Head of Equalities, who will determine where further work will be required. An update was reported to the Executive meeting.

FINANCIAL IMPLICATIONS

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

RISK IMPLICATIONS

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

LEGAL IMPLICATIONS

73. The Executive was required to recommend a budget to Full Council for approval and Full Council was required to approve a budget and set a level of Council Tax for 2007-08. The budget set may not be a deficit budget. This was agreed with the Head of Legal Services on 30 January 2008.

STAFFING IMPLICATIONS

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

COMMUNITY SAFETY IMPLICATIONS

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

COUNCILLORS CONSULTATIONS

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

STAKEHOLDER CONSULTATIONS

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

SCRUTINITY COMMITTEE CONSULTATIONS

78. Performance, Resources and Assets Scrutiny Committee considered this report on February 6. All members of the Council were invited to the meeting. In addition each Scrutiny Committee considered the approach to budget preparation in October/November 2007, asked detailed questions of Heads of Service concerning base budgets and options for growth or savings in December 2007, and considered the proposed growth and savings options put forward in this report on 4 February 2008. This is more detailed than any previous budget scrutiny process operated by the Council.
OPTIONS

79. It is open to the Executive to recommend any level of Council Tax increase provided the level of savings, growth items, and/or any contribution from reserves enables the net budget to balance with the level of tax increase proposed, and the issues raised in the section on capping are given due consideration. It should be noted that a budget set with a contribution from reserves would require a change to the Council approved medium term financial strategy, and that a capital programme set at a level above the estimated available resources over a 5 year period would be in contravention of the Council’s standing orders.

APPENDICES

80. The following appendices are included with this report: -

   Appendix A – Analysis of Variances between 2008/09 Net Expenditure prior to Growth and Savings, and the 2007/08 Budget.
   Appendix B – Risk Management Strategy and Contingency Provision
   Appendix C – Budget Prioritisation – Assessment of Growth Items and Efficiency Savings Proposals
   Appendix D – Financial Strategy amendments
   Appendix E – Budget Consultation 2007 – Results
   Appendix F – Government Grant Formula
   Appendix G – Prudential Code of Capital Finance (Including Prudential Indicators)
   Appendix H – Capital Strategy
   Appendix I – Protocol for the Management, Control and Use of Reserves
   Appendix J – Prioritisation of Project Appraisal Forms
   Appendix K – Capital Resource Assessment
   Appendix L – Council Tax Comparisons - 2007/08 Tax Levels
   Appendix M – Medium Term Plan
   Appendix N – Schools Budget 2008/09 – Use of Headroom
   Appendix O – Asset Management Plan including backlog maintenance (only details on how to obtain a copy of the plan included)
   Appendix P – Report on the Robustness of the Budget

BACKGROUND PAPERS

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