Medium Term Financial Plan and Strategy

Introduction

1. The medium term plan sets out how resources will be prioritised in order to achieve the aims set out by the Council in Luton 2011, and in the 2007/08 addendum to the Corporate Plan, to get the best for Luton while adhering to the Council’s stated values.

2. The Council’s use of resources is externally assessed each year under the Audit Commission’s scoring scheme, and the Council has scored 3, meaning ‘consistently above minimum requirements – performing well’ for both the current use of resources, and for the most recent corporate assessment of the Council. For many years the Council has provided value to the taxpayers of Luton by setting a Council Tax below the national average, and considerably below the level of the council tax elsewhere in Bedfordshire.

3. The 2008-2013 medium term plan was based on the need to find substantial levels of efficiency savings in future years. This plan sets out the Council’s overall objectives and priorities, and the predicted level of revenue and capital investment available to achieve those objectives. It gives the national context, which is crucial in terms of the amount of funding made available to the Council. It outlines predicted budget pressures, growth areas, and further savings targets.

4. A number of the other documents published with the Budget Report are a vital part of the medium term financial plan, and were the plan published separately, would be included within it as appendices. In particular, they are the Budget Risk Management Strategy (appendix b), the Government Grant formula (appendix F), the model for assessing levels of the affordable borrowing (appendix G), the prudential indicators (appendix G), the assessment of capital resources (appendix K), the section of the budget report on the capital programme (paragraphs 46 to 57), the assessed lists of proposed growth and savings (Green Book) and the capital programme itself.

5. The Council’s work and medium term planning is driven by its aim to work with the people, organisations and public sector partners in Luton, and with the interests of Luton at heart, in order to achieve the Sustainable Community Strategy for Luton. This strategy was devised in May 2008 by people representing a cross-section of the community and all the public sector partner organisations. Their aim to set out how the town should be in 2026, the year when a child born in 2008 would be leaving school, and they agreed that the priorities to deliver that strategy should be grouped into 4 key areas of activity, set out below.

6. The 4 areas of activity are:

- Stronger and Safer Communities
- Health and Wellbeing
- Environment and economic Development
- Children and Young People
7. In order to ensure that it is able to make its contribution to the priorities set in the strategy, the Council is adding a further key area for its own activity:

- Being a Financially sound and efficient council.

8. There are key priorities within the Sustainable Community Strategy for each of the 4 areas of activity referred to above. These are set out below, together with notes in italics of how the Council’s budget and medium term planning will help achieve them.

9. **Stronger and Safer Communities priorities are:**

- Increasing the numbers of active citizens: people with the motivation, skills and confidence to speak up for their communities and say what improvements are needed. *The budget proposal to increase member’s allowances may broaden the number of people willing to stand as councilors, although the rates are still very low in comparison with other unitary councils.*
- Strengthening communities: building the capability and resources of community, voluntary and social enterprise groups to bring people together to work out shared solutions. *Voluntary Action Luton has put in a bid for capital funding to enable a youth community hub, Myspace, to be built on council land in the town centre (Enterprise House). The aim would be for public sector partners to fund this together, beginning in 2012 and NHS Luton have offered a contribution. The Council’s contribution is likely to be in excess of £100k pa.*
- Creating partnerships with public, private and voluntary and community sector bodies: public bodies willing and able to work as partners with local people. *This is being done successfully through the Local Public Services Board (LPSB) and the Council strengthened its resources to be able to work effectively with the LPSB as part of the 2008/09 budget, with the creation of an LPSB Partnership officer post.*
- Reducing anti social behaviour and the fear of crime, ensuring all people feel safe. *The Council’s ongoing base budget includes funding for community safety, and the established partnerships with the emergency services are fundamental.*
- Reducing crime including serious acquisitive crime, covering: burglary (dwelling), robbery, theft of a motor vehicle, theft from a motor vehicle, domestic abuse, criminal damage and hate crime. *The Council continues to work with the Police who lead in this area. The Police have an office in the Town Hall to enable effective partnership working.*
- Management of offenders to reduce the number of prolific and persistent offenders. *The Council continues to support the actions of the Police and Probation services in these areas.*
- Tackling alcohol and drug abuse. *The budget proposes a stepped increase in the funding of support to tackle drug and alcohol abuse (growth item HCL903G).*
• Improving road safety. The Council’s base budget includes ongoing provision for road safety measures.
• More well-designed, safer and accessible open spaces. The Council has been successful in bidding for specific national funding for a major development of play spaces in the town.

10. Health and Well Being Priorities are

• Promoting healthy living and tackling the key risk factors which affect health. In partnership with Active Luton, the council has taken up the Government’s offer of a 2 year grant to provide free swimming for the over 60s and under 16s. The capital programme includes an Olympic standard new aquatic centre, and active partnership work with NHS Luton on dealing with issues such as teenage pregnancy has been shown by a recent audit to be very effective.
• Focusing on prevention and early intervention. Within the base budget there is a re-enablement team for adult care, a prevention team within children’s social care, and pro-active work to prevent homelessness, which was strengthened by investment of part of the 2007/08 underspend in this area.
• Supporting people to live independently. A key area of budget growth is in the costs of elderly home care, whereas the costs of elderly residential care are increasing less than was envisaged in the previous medium term financial plan. Increases in demand for care packages for Learning and Physical disabilities continues to be one of the principal budget pressures.
• Improving housing conditions for existing and new housing. The capital programme continues to include substantial funding for disabled facilities and renovation grants, with a major financial commitment from the Council in excess of the amount allocated by the Government via supported borrowing. The council has made very substantial progress towards achieving the decent homes standard for its own housing stock, and the growth proposals include funding to pump-prime a joint venture for new housing in the area on parcels of land currently owned by the Council.
• Improving mental health services. Mental health services are provided in partnership with NHS Luton via pooled budget arrangements, which are very cost-effective when benchmarked with the arrangements in other areas.
• Improving services for carers. In 2008/09 the Council committed funding from the 2007/08 underspend to provide facilities for short breaks for children with complex needs and disabilities, which also provide a break for their carers. The care commissioning strategies, for both adults and children, which are funded in the Council’s base budget, focus on the key importance of carers.
• Improving leisure and cultural opportunities for all, and providing better access. This has been a major focus with the 2008 opening of the Stockwood Discovery Centre, a £6million project, and the current redevelopment of the Central Library. In the future, the Executive is committed to the development of an Olympic standard Aquatic Centre,
which is a key part of the capital programme. Leisure and Cultural services are now run by independent charitable trusts, Active Luton and the Luton Cultural Services Trust, which have access to funding streams that the Council cannot access itself. The Council is the commissioner of services on behalf of the people of Luton. This has enabled significant investment, for example in fitness facilities.

- Understanding that different service delivery will be necessary to ensure fair health and wellbeing outcomes for all. The Council’s and NHS Luton’s commissioning strategies, developed in consultation, will lead this change.

11. Environment and Economic Development priorities are:

- Successfully adapting and mitigating for climate change. The 2008/09 budget included growth to create a Council climate change team, who are working to ensure that the Council succeeds in this aim, and this funding is continued in the base budget for 2009/10.
- Protecting and enhancing the natural and built environment, including our rivers and natural habitats within Luton’s green spaces. The budget includes provision for the dedicated Parks service, focused on the green spaces and natural habitats in the Council’s ownership, and the Planning Service, the cost of whose improvement plan is allowed for within the base.
- Reducing consumption of water, energy, materials and minimising waste, including support for renewable energy generation. The capital programme includes provision for energy management measures, and the energy management policy approved by the Council’s Executive in 2008 agreed a general principle of investment in energy reduction where a financial return can be achieved.
- Enhancing skills for employability and entrepreneurship and reducing differences in achievement levels between communities. This is a wide-ranging priority, from education, both school-based and adult, to regeneration, facilitating the development of such skills in the workplace. The Council’s budget continues to focus on Education, with an above average cost per head of population compared with other councils, due to the high numbers of young people, the high numbers who do not have English as a first language, and the need to focus on this priority. The Council continues to recognize the key importance of regeneration in Luton with a distinct service focused on such issues. The major investment in Building Schools for the Future is intended to transform the learning environment in Luton to act as a major spur for raising achievement levels and enhancing skills, and the Council’s policy of developing other facilities such as libraries as part of an extended schools approach is designed to improve lifelong learning opportunities for the community.
- Improving public transport, access and mobility and increasing travel to work by sustainable modes of transport e.g. public transport, walking, cycling. The capital programme includes the development of the Luton Dunstable Guided Busway, which is intended to make a major improvement in this area. The base budget includes the support of bus
services which would not otherwise be run commercially by the bus companies, and the Council continues to support the concessionary fares scheme for the elderly, including supporting free travel at peak times not covered by the national scheme.

- Increasing economic activity and good local jobs for local people by working with new and existing businesses and social enterprises and inward investors. This is the core function of the Council’s Regeneration Service, who are part of the base budget. In addition it is an important part of the work of the Planning Service to ensure there are appropriate employment sites. The Council also aims, as shown in the Procurement Strategy, to continue to use its purchasing budgets to buy services and goods locally where they can be demonstrated to be best value, to use its understanding of the local, as well as national, supply markets to put out contracts in forms that will enable local businesses to be competitive in bidding, and to inform local businesses of tendering opportunities.

- Improving the amount and range of housing suitable for the needs of Luton’s existing and future residents. The growth items include pump priming for a housing joint venture. The budget includes growth for joint working with Central Bedfordshire on planning and transportation, and the Council will be working via the joint planning committee to allocate land for housing, in particular affordable housing. The housing revenue account budget is focused on maintaining the decent homes standard within the council’s housing stock.

12. Children and Young People Priorities are:

- Listening to the views of children and young people. A substantial participation process is supported via the Children’s Trust, with funding in the integrated youth services budget and that of NHS Luton.

- Improving the health of children and young people. This is approached via the Children’s Trust with key partners such as NHS Luton and schools. Some budgets in this area, such as sex and relationships, are becoming more school-based, and there are many multi-agency projects such as smoking cessation, and obesity. There are prospects for further pooling of budgets as the national funding streams evolve.

- Ensuring children and young people in Luton are safe and well cared for. This is another key area of partnership working via the Children’s Trust, with a number of different funding streams, again evolving, and the prospects for further pooling of budgets.

- Supporting our children and young people to achieve skills and experience to enhance their prospects for the future. The schools are the key drivers here, supported by the Council’s School Improvement and Access budgets, and other parts of the public and third sector in Luton. The Government is currently consulting on the development of a national 14-19 funding formula, which could have a significant impact on resources allocated to Luton – exemplifications of initial proposals showed Luton schools losing over £1m per annum.
• Reducing the differences in educational achievement between ethnic groups. This is a key focus for both schools and the Council. The council budget includes provision for prioritized support, intervention programme, and appropriate training for teaching professionals.

• Providing positive activities for young people and reducing anti-social behaviour. The integrated youth service has this aim at its heart, and it continues to be a vital part of the Council’s budget. The provision of sports and cultural facilities, via Active Luton, the Cultural Services Trust, and the Council’s parks and open spaces, is also important, and the cost of using football pitches has been kept low.

• Better meeting the needs of children and young people with disabilities/learning difficulties. This is a major area of spend in both children’s and adult learning services, and the transition between children’s and adult care is one of the main focuses of both services.

• Supporting Building Schools for the Future. This is the major area of new investment in the 2009/10 budget, to provide facilities that will enable the positive transformation of Luton’s education services, and the life-chances of the children of the town.

13. In order to work successfully to achieve these aims, the Council has set itself the following additional objective:

Being a financially sound and efficient council. The priorities are:

• Putting the customer first. This is key in all Council activity, and is especially the focus of the Council’s Customer Access and Business Transformation Service. The budget includes provision for the Luton Excellence Support Team, who are totally focussed on enablings the Council to achieve all the priorities set out under this objective via the creation of a lean thinking culture of continuous self improvement in all areas. Fundamental to the design of all improvements via lean is putting the customer first and eliminating processes that do not add value for the customer.

• Managing Money Well. The budget provides for the continuing finance service, both central and devolved, whose primary focus is on ensuring that the authority manages its money well. The Council’s financial service is analysed as part of the Budget Report. It is seeking to meet additional demands within existing resources, which have been shown by benchmarking to be below average cost when compared with other unitary councils. It must also be noted, however, that the authority will only continue to manage money well if management and members throughout the Council are also focussed on the importance of the issue and their roles within the devolved financial management structure.

• Governing and Leading the Business Well. The budget provides for the Council’s leadership management team, existing Heads of Service, and divisional managers, together with the Corporate Procurement team who work collaboratively with colleagues from other authorities, and with the office of government commerce, to ensure the Council’s
procurement of services is cost-effective, in accordance with EU regulations, and gets great deals for Luton.

- Managing our use of natural resources well. The Council created an Environmental Assessment team as part of its 2008/09 budget growth. The Capital and Assets Management Service also has a dedicated Energy Manager. One of the Local Area Agreement targets relates to developing an environmental risk assessment for the area to Level 4, the highest level, and this will ensure that a significant focus is put onto the use of natural resources. The budget and the energy policy are also based on investments in energy management funded by prudential borrowing where a business case can show that there will be ongoing savings greater than the cost of borrowing, and the asset management plans show that the council can expect to be using the building concerned for a sufficient length of time to ensure overall payback. £150k is included in the capital programme for this purpose.

- Managing our assets well. This is a key task of the Capital and Asset Management service, and the capital programme makes resources available for maintenance via the development of capital receipts and the use of airport dividend for capital purposes. In addition this budget and medium term plan makes provision for the costs to the Council of the building schools for the future project, which includes the development of assets via an extended school approach. The BSF programme and the development of a quality Aquatic Centre should significantly improve the quality of some of the major assets.

- Managing and Developing our workforce to achieve our priorities. The Human Resources service has been the subject of a value for money review to ensure it remains fit for purpose to foster the development of a workforce and management that can achieve the Council’s priorities. The budget reflects the cost of the service with some allowance for savings from the VFM review.

**Links to other key Council resource strategies and policies**

**People Strategy 2008-2011**

14. The Council recently refreshed its People Strategy, which also aligns with the Sustainable Communities Strategy and Corporate Plan objectives, and has five key themes under which it aims to achieve those objectives:

*Theme 1: improving organisational effectiveness*
*Theme 2: workforce planning*
*Theme 3: skills development*
*Theme 4: recruitment and retention*
*Theme 5: performance management*

15. These themes also link directly with medium term financial planning, in that improving organisational effectiveness is fundamental to achieving the objective of being a financially sound and efficient council, working
16. Workforce planning, skills development and recruitment and retention are also fundamental building blocks to the effective delivery of all the Council’s objectives, as well as describing exactly how we will manage and develop our workforce to achieve our priorities.

17. Effective performance management is fundamental to the delivery of the aims of the strategy and the corporate plan, and links directly to financial management. The People Strategy ‘recognises that improving service performance is fundamental to the strategy’ and this binds the people strategy into the value for money, continuous improvement agenda that is fundamental to success in being a financially sound and efficient council.

18. The medium term financial strategy in its turn contributes to the People Strategy by providing for the continuation of the local government pension scheme, which as an inflation-proofed final salary scheme is a significant financial benefit in helping to make the Council an employer of choice, which is one of the key ways in which the People Strategy aims to provide a workforce capable of improving services. The budget is based on full provision for each established post (budgeting in line with the aim to build the organisation’s capacity), less an allowance for turnover, acknowledging that the Council, like many other employers, works with a base level of vacancies (the level of turnover provision has been increased by over £800k, to £3.7million, in this budget, to reflect outcomes in recent years).

19. The financial strategy also continues to include provision for staff training to meet the organisation’s goals.

**Information Management Strategy**

20. The medium term financial plan is based on supporting the identified and quantified investments agreed by the Information Strategy Group, and the general principles of the Council’s IT and enterprise information strategies, which are undergoing development based on advice from Microsoft to reflect the opportunities offered by the recent signing of an enterprise agreement. The capital programme includes provision for the upgrades of application software and hardware development on a phased basis. The revenue budget reflects the ongoing costs of IM, combined with a significant number of efficiency savings in this area, continuing the trend of IT efficiencies from past years.

**Procurement and Commissioning Strategies**

21. The procurement strategy sets out how the Council aims to improve value for money, by buying ‘more for less’, and at the same time ensuring that it procures services in sustainable ways, assessing environmental impacts, and whole life costs, not simply short-term savings, when considering options. The major care services have set
out clear commissioning strategies that demonstrate how they will be assessing and improving value for money.

Energy Policy

22. The Energy Policy reported to Executive on 26 January is based on initial investment in energy saving and efficiency improvements where they can be demonstrated to be viable. The budget also includes a growth item of £450k for energy, given the volatility of prices and budgets recently. Joint work between the Energy Manager and Finance will take place over the coming year, and this will also begin to assess the risks that may arise from the Carbon Reduction Trading Scheme, which will be introduced from 2011/12, with 2010/11 used as the base year. Consultation on the proposed scheme is promised for February 2009.

NATIONAL CONTEXT

Introduction

23. Luton’s financial and service planning takes place within the context of the national economic and public expenditure plans. This part of the Medium Term Plan discusses the broad assumptions within which the budget and Medium Term Plan are framed.

The Economy and Public Expenditure, and Prospects for Grant income

24. The recession and the credit crunch have totally changed the face of the whole economy, including the prospects for public expenditure. This will have a major impact on central government financing of local government in future. In the context of falling central government tax revenues, it is pleasing that the 2009/10 formula grant settlement was unchanged from previous planning figures. Current informal indications are that the Department for Communities and Local Government (DCLG) is likely to try to retain this same principle for 2011/12, although specific grants may be at risk. However, it is impossible to forecast what the position of the public finances will be next year, or which government will be in power.

25. The Pre-Budget Report envisaged public spending overall increasing by just over 1% in real terms per annum in future years. However, the Institute of Fiscal Studies forecast recently that tax revenues are likely to be approximately 4% down on the predictions made at that time. It is clear that, although in the short term there is talk of some fiscal stimulus, in the medium to long term future Governments will have very limited resources with which to fund public services. Further, Education and Health Service are likely to be higher priorities nationally than local government. In this context, it would be optimistic to assume that grants will remain at current levels, and extremely optimistic to assume grant increases. The civil servant in charge of local government finance has spoken of the potential for a ‘huge cliff edge’ in funding at the end
of the current comprehensive spending review period (2010/11 is the final year of that period) and has spoken of the need for the whole public sector to focus on getting in shape in terms of efficiency during 2010/11, as there may be major shocks in store after that time. The focus on value for money will be relentless.

**Spending pressures for local government nationally**

26. The pressures on care services arise from increasing numbers of cases of learning and physical disability, the increasing elderly population requiring care. In addition, in particular following the Baby P case in Haringey, there is increasing pressure on children’s services to use care options, rather than try to keep children with their families. This is extremely expensive and adds to the budget issues.

27. In their CSR2007 submission, the LGA noted that the costs of waste management and disposal continue to rise by approximately 10% per annum, with the costs of landfill tax escalating by 8% per annum, recycling targets increasing annually, and the pressure of landfill fines in ‘target years’ as set by the European Union.

28. In addition, the recession is having the following impacts at a national level, based on an LGA survey:
   - Investment income is reducing very significantly (this is worth millions to Luton, as the Council’s borrowing – approx £150million – is at fixed rates, and its investments, of approximately £110million are largely at variable rates)
   - Fee income is reducing (building control, land charges, development control, parking income, fees for use of facilities, fees for care – where payment is based on a needs assessment)
   - Housing Benefit caseload, and homelessness numbers, are increasing
   - The need for active economic regeneration is increasing still further
   - A number of commercial tenants are finding it difficult to meet their rent obligations
   - Council Tax and Housing Rent collection is becoming more difficult due to the financial pressures on people
   - It is also likely that the demand for care and welfare services, and Education services, may increase, particularly where they are provided free to those on benefits.
   - Capital receipts from the sale of land, buildings, and council housing, which have been the traditional source of funding for Council capital programmes for some years, are drying up, as the market for land and property is shrinking, and the potential receipts are reducing.

**Inflation**

29. The Government’s preferred rate of inflation is currently running at 3.1% (CPI December 2008).

30. However, inflation is on a major downward curve. The CPI in November was 4.1%. The all items Retail Price Index for December
was 0.9%, down from 3.0% in November. The Bank of England’s most recent inflation report showed that their central forecast is for inflation rates of around 1% for most of 2009/10. It also showed that there is a possibility of deflation (they estimated the probability to be around 15%).

31. It is difficult to assess local government specific inflation levels, but since in much of the work commissioned the prime cost driver is staff costs, it is generally closer pay rather than price inflation.

Council Tax Levels
32. Council Tax has been increasing at a level significantly above inflation for a number of years, due principally to the ‘gearing effect’ – a 1% increase in costs is equivalent to a tax increase of more than 2%. Luton’s basic tax level is below average, and the amount raised by a 1% increase in Council Tax in Luton is also well below average for a town of Luton’s size, due to the number of dwellings in low tax bands. This combination of factors continues to put pressure on Luton’s financial position.

33. The table below shows the national average increases in band D council tax for 2 adults, compared with Luton’s increases since it became a unitary authority.

<table>
<thead>
<tr>
<th>Year</th>
<th>National Tax Increase</th>
<th>Luton Council Tax Increase</th>
<th>Increase to Luton taxpayers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-8</td>
<td>6.5</td>
<td>-9.01</td>
<td>-7.4</td>
</tr>
<tr>
<td>1998-9</td>
<td>8.6</td>
<td>8.8</td>
<td>8.6</td>
</tr>
<tr>
<td>1999-0</td>
<td>6.8</td>
<td>7.9</td>
<td>8.1</td>
</tr>
<tr>
<td>2000-1</td>
<td>6.1</td>
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<td>2001-2</td>
<td>6.4</td>
<td>5.9</td>
<td>5.8</td>
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<tr>
<td>2002-3</td>
<td>8.2</td>
<td>14.7</td>
<td>14.5</td>
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<tr>
<td>2003-4</td>
<td>12.9</td>
<td>6.3</td>
<td>7.4</td>
</tr>
<tr>
<td>2004-5</td>
<td>5.9</td>
<td>0 (see note)</td>
<td>8.4</td>
</tr>
<tr>
<td>2005-6</td>
<td>4.1</td>
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<tr>
<td>2008-9</td>
<td>3.9</td>
<td>4.3</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Note: Fire was included in the LBC figure in the years to 2003-4, but not in 2004-5. The figures for these years are therefore not directly comparable.

34. This year, as last year, the Minister has made clear that the Government is prepared to use its capping powers, and stated that the Government expect the average level of Council Tax increase to be ‘substantially below 5%’. 
Efficiency Requirements
35. Until 2007/08 efficiency savings of 2.5% per annum were required of all councils, of which 1.25% had to be cashable. With effect from 2008/09, the Government has assumed, within its calculations of how much funding local authorities need, that councils will achieve 3% net cashable efficiency savings.

36. Although annual efficiency statements are no longer required, efficiency is one of the national performance indicator targets, and the Government has chosen to emphasise its centrality by issuing regulations requiring information on the amount of efficiency savings forecast for the previous year to be included on the face of the Council Tax bill, and in the accompanying Council Tax leaflet.

37. There are also regional improvement and efficiency partnerships (RIEPs), set up to promote good and efficient practice across the local government sector, and the Council is engaged with the Eastern Region RIEP.

Local Area Agreements (LAA)
38. The Council’s main focus is on the new local area agreement, that began in 2008/09, and this is the prime focus of the Council’s integrated performance management/budget monitoring reports. As noted above, the targets of the LAA reflect the priorities of the sustainable communities strategy and corporate plan, and therefore are the principal focus of the Council’s medium term financial planning. While there is an element of reward grant payable, no use of this is included in the medium term financial plan, and the key is the achievement of the objectives, not any financial reward that might follow.

39. 2008/09 is also the final year of the second Local Public Service Agreement (LPSA) with Government and other local organisations. The budget for 2009/10 assumes reward grant income for departments based on prudent estimates of the amount of reward that may be achievable. 25% of the assumed grant for LBC targets is not included in the budget calculations, on the basis that this is given to the Local Public Service Board to fund essential partnership expenditure.

Education Funding
40. Schools and school-related funding is now provided 100% by the Department for Children Schools and Families (DCSF), in the form of the Dedicated Schools Grant (DSG). This includes guaranteed three-year budgets for each school for the comprehensive spending review period (currently 2008/09 to 2010/11), based on pupil numbers, with a minimum per pupil increase each year.

41. This does mean that the actual sums receivable are only finalised in May, after the pupil numbers are definitively established. The minimum
per pupil increases for schools are 3.6% for 2009/10, and 4.1% for 2010/11.

42. Decisions on schools budgets have therefore to be taken on provisional figures, with a mechanism to deal with under and over allocations.

43. Decisions on school budgets have to be made, in conjunction with the Schools Forum, for three years, based on these per pupil guarantees.

44. Although there is a national minimum increase per pupil, the formulae to create schools budgets are currently locally determined, with some national guidelines, in order to reflect local circumstances. The Government is currently consulting on the creation a national funding formula for 14-19 year old education in future. Initial modelling showed the potential for Luton schools to lose over £1million per annum from the first draft proposals.

Concessionary Fares
45. The Government extended the concessionary fares scheme on a national basis from 2008/09, with specific grant funding. Consultations continue on potential future changes to the funding of the scheme. The cost payable by Luton taxpayers over and above Government support for 2009/10 is estimated to be £700k.

LUTON’S LOCAL CONTEXT
Partnerships
46. The Local Public Service Board (LPSB) and the Luton Forum are the principal drivers of the strategy for Luton as a place. The LPSB also holds the public bodies to account in terms of their progress towards the targets of the Sustainable Communities Strategy and Local Area Agreement, and the Council revamped its performance and finance reporting at the beginning of 2008/09 to ensure that it focussed on those targets and outcomes. The 2008/09 budget also saw a significant strengthening of the Council’s resources to work with the LPSB.

47. There are a number of specific public partnership bodies that provide joined up services between the public sector organisations, such as mental health. In addition, the strategic links between NHS Luton and the Council are strengthened by the Joint Director of Public Health, being part of the Management Team of both NHS Luton and the Council. There are also a number of jointly funded posts in the children’s services area. The public sector Chief Executives and finance officers recently held a joint meeting to review opportunities for further joint working, including in procurement, and a strategic approach across the local public sector. NHS Luton is developing its world class commissioning strategy in line with national requirements, and the authorities locally will be reviewing opportunities for further joint commissioning within the national framework. The Council adopts a collaborative procurement approach using the Central Buying
Consortium (CBC), and other national and local procurement groupings, and this continues to develop. One specific example is working with Police and Fire, as well as other public authorities including Central Bedfordshire, Bedford Borough, and Suffolk County Council as part of the temporary staffing and recruitment procurement exercise.

48. The Council’s People Strategy notes that we are also ‘planning future workforce requirements in collaboration with our main partners’. This will include developing joint strategies to overcome medium and long term skills shortages and ensuring our workforce reflects the community it serves.

**Capital**

49. The Capital Programme included in the Estimates Book is set out for 5 years, in line with the medium term revenue projections. The estimated revenue costs of the capital programme are included in the revenue projections set out below, with the following key assumptions.

50. The biggest single item is the Building Schools for the Future project. The Council has to meet the initial costs of design and procurement in full. Subsequently it is assumed that grant, PFI credits and supported borrowing cover the capital costs in full, and that schools make a significant contribution towards ongoing costs, but that the Council meets the costs of the Local Education Partnership, expert advice, and a proportion of the ‘lifecycle gap’, the facilities costs to keep the facilities in optimum condition.

51. The risks relating to the size of the programme are addressed in the Budget Risk Management Strategy, appendix B of the budget report. This is a major issue for the Council, and excellent project management of the capital programme, to budget and to original specification, is fundamental to the Council’s financial health, and therefore to its key objectives, particularly the one of being a financially sound and efficient council. In addition, it is essential that the schemes are built to minimise whole life running costs.

52. The major new development in this programme is the Aquatic Centre, which it is intended to be a landmark development for Luton, and an important part of the positive transformation of the town which is part of the Council’s main objective in setting its corporate plan.

53. Some of the resources to fund the programme are more uncertain than in previous years, due to the credit crunch. Projected income from capital receipts have been reduced slightly, and put to later years. The programme is also heavily dependent on airport dividend from London Luton Airport Limited, and the company’s income is directly dependent on passenger throughput at the airport. In addition resources are assumed from developers, for example for the Guided Busway. The programme, projects and potential for resources will need to be kept
under regular review to ensure expenditure and resources remain in balance over the medium term.

Revenue
54. In the light of the national context and the Council’s aims, set out above, this section includes estimates of the Council’s potential medium term financial position. Given the unprecedented financial position nationally and internationally, and the speed with which the credit crunch and the recession have developed, it is extremely difficult to forecast with any confidence at this stage. Therefore a range of options with different assumptions are included. The initial case is based upon the following:

- the Council’s formula grant increasing as announced in CSR 2007 for 2010/11, followed by a cash freeze on grant
- pay awards of 2% per annum
- inflation limited to 2% for contractual and care services, with no other inflation allowed
- interest rates recovering in future years
- the 2010 pension revaluation resulting in an annual increase in the employer contributions of 2.4% of salaries, and a £1 million increase in the cost of past service
- income from fees and charges continuing to increase by 2% per annum
- the currently estimated revenue impact of the capital programme
- the bid for the Myspace youth development, with a revenue impact from 2012/13
- no additional costs arising from risks shown in the budget risk management strategy apart from those listed here
- an increase in council tax yield of 4% per annum (yield depends upon the number of properties, and the provision for non-collection, as well as the percentage increase in council tax)
- no new growth and savings beyond those identified in the budget papers
- the announced 0.5% increase in employers national insurance taking effect from 2011/12.

55. The impact of savings and growth have been projected for 5 years. This includes the demographic impact of the increasing numbers of elderly and disabled requiring care, using the current care threshold, whereby needs must be substantial before care is offered. This remains the largest single growth area – which is in line with the LGA’s view of the position nationally.

56. The estimates for the costs of waste disposal are also crucial. If a Council does not meet its landfill targets, it is subject to LATS fines of £150 per tonne. In certain years (the first being 2009-10), Councils cannot trade allowances to meet the targets, and if more waste is sent to landfill than allowed, Councils will be fined. This is why the Council is part of the consortium with Central Bedfordshire and Bedford Borough
Initial Forecast

<table>
<thead>
<tr>
<th>Medium Term Estimates</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Schools Budget</td>
<td>177.0</td>
<td>188.5</td>
<td>198.1</td>
<td>205.3</td>
</tr>
<tr>
<td>Estimated Formula Grant</td>
<td>-89.9</td>
<td>-89.9</td>
<td>-89.9</td>
<td>-89.9</td>
</tr>
<tr>
<td>Area Based Grant</td>
<td>-15.5</td>
<td>-15.5</td>
<td>-15.5</td>
<td>-15.5</td>
</tr>
<tr>
<td>Funding items that are not ongoing from 2008/09 surplus</td>
<td>-1.7</td>
<td>-0.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Council Tax</td>
<td>-64.5</td>
<td>-67.0</td>
<td>-69.7</td>
<td>-72.5</td>
</tr>
<tr>
<td><strong>Level of further Efficiency Savings Required</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

57. It should be noted that the efficiency savings requirements are cumulative. So if an additional £5.4million of ongoing savings is found in 2010/11, then the additional requirement for 2011/12 is £10.4million, and if all those are also ongoing, the additional requirement for 2012/13 is £7.2million.

58. If all the assumptions shown in paragraph 53 proved to be right – which they will not be – the key to achievability over and above this will be limiting further growth pressures. In the 2009/10 budget process, officers identified £2.5million of new growth pressures that did not feature in the 2008/09 medium term planning assumptions. If this continues, then the level of increased efficiency savings required will go up accordingly, as is noted in the sensitivity analysis in paragraph 61.

Planning Targets

59. Given the pressure that could build up through a sustained recession, in terms of reductions in local authority income, and increased demand for free services from those on benefits, it would be prudent at this stage to allow for a one-off recession provision of £1million in 2010/11.

60. This would leave the planning targets as follows:

<table>
<thead>
<tr>
<th>Medium Term Efficiency Savings Targets to balance the budget</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Overall Target</td>
<td>6.4</td>
<td>15.8</td>
<td>23.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Additional Requirement in year if all the previous year’s savings are ongoing</td>
<td>6.4</td>
<td>9.4</td>
<td>7.2</td>
<td>4.4</td>
</tr>
</tbody>
</table>
Sensitivity Analysis

61. There are a vast number of very possible events which could change the figures significantly. For example:
   a) each 0.5% variation in the pay award would result in approximately £0.5m variation in costs for each year concerned;
   b) each 0.5% variation in non-pay inflation would result in approximately £0.3m variation in costs for each year concerned;
   c) each 0.5% variation in the Council Tax yield would result in approximately £0.3m variation in costs for each year concerned;
   d) if the level of new growth, not previously identified in the medium term plan, continues at that experienced in the 2009/10 estimates, that will add £2.5million per annum in costs.

62. One particular scenario that needs to be modelled is to reflect the proposal put forward by George Osborne at the Conservative party conference in 2008, when he suggested that the Council Tax could be frozen, with a future Conservative Government providing half the funding, and the authority providing the other half.

63. The impact on the Planning Targets model is set out below, assuming the additional grant is worth 2% of the Council Tax estimate.

<table>
<thead>
<tr>
<th>Medium Term Efficiency Savings Targets to balance the budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
</tr>
<tr>
<td>Overall Target</td>
</tr>
<tr>
<td>7.5</td>
</tr>
<tr>
<td>Additional Requirement in year if all the previous year's savings are ongoing</td>
</tr>
<tr>
<td>7.5</td>
</tr>
</tbody>
</table>

64. Another potential scenario, given the state of the public finances, and in particular non-domestic rate income which is used by Government to fund a major part of the costs of local government, would be that the formula grant for 2010/11 cannot be sustained at the previously announced figure. This could also increase the targets by, say, £1million per annum.

Medium Term Financial Strategy

65. The medium term financial plan and sensitivity analysis above shows that if costs are allowed to escalate, or the levels of increase in income are less than expected, the potential deficits could reach levels that will be extremely difficult to sustain. For this reason, and to ensure the effective achievement of the Council's corporate aim to be a financially sound and efficient Council, the key principles in the Council's medium term financial strategy are as follows.
   - Officers will attempt to keep costs within the overall envelope set out in the optimistic forecast assuming no new additional growth, set out in the medium term financial plan
   - The Luton Excellence project will aim to deliver savings to make a major contribution towards balancing the budget on an ongoing basis.
• The council will use lean principles in its aim to produce excellent services at less cost.
• Plans will continue to be developed and implemented within overall service commissioning strategies to address and try to use preventative measures to reduce budget growth in the key demand-driven services, such as caring for complex disabilities in both adults and children, home care and residential care for the elderly, and the costs of looked after children. This will focus on improving the life-experience of the vulnerable, and ensuring that appropriate levels of care are provided.
• Street services will continue to develop plans to maximise recycling and minimise landfill, using the waste model developed in conjunction with environment and regeneration finance to assess potential impact.
• Every service will continue to focus on value for money, in terms of efficiency, effectiveness and economy, in order to minimise costs and improve services to the public.
• The council will aim to use its information technology to support transformation, reduce long-term requirements for office accommodation, minimise manual administration and hence reduce costs. It will aim to use its human resources services as an agent of organisational development to improve service and minimise costs.
• Officers will use e-procurement to ensure transparent procurement policies and the use of corporate framework contracts to minimise costs and achieve rebates where appropriate.
• Structures will be assessed on a one council basis to ensure that the organisation is focussed on excellent customer service at the minimum cost to the council taxpayer, and that structures facilitate rather than hinder achievement.
• Officers will continue to monitor budgets extremely closely, ensuring that outturn predictions reflect current realities, and that all variations are raised corporately in order that the budget can be managed effectively at an overall level, avoiding unexpected overspends so that the accounts can be closed in line with estimates. This remains key to managing budget risks, and avoiding the need to increase reserves.
• The medium term financial planning assumption will be that the council maintains costs within the planning target forecasts, and the Luton Excellence project, plus the focus on value for money and evidence based budgeting assessments and reviews will achieve sufficient efficiency savings to balance the budget over the five year planning period without service reductions.
• The council will continue to make representations to the office for national statistics and government until the true level of population of Luton is recognised in the formula grant assessment, and Luton’s grant is increased accordingly in the longer term.

66. A key aim will be to improve collection of Council Tax, including arrears, in order to maximise the income available to the Council, and
to ensure that those who do pay their tax are not subsidising those who can afford to pay, but try to avoid paying.

67. Council tax levels will be kept below the national average, and every attempt will be made to minimise the level of tax increase, consistent with the need to maintain key services to the public.

68. The Council will strive to minimise costs and maximise income from treasury management, but this will be within the context of the overriding importance of minimising risk to the Council’s investments, particularly given the fall out of the credit crunch and its impact on the banks.

69. The Council will continue to develop sites, and consider marketing for sale non-operational land and buildings which do not yield significant rental income in order to generate capital receipts to pay for capital expenditure on the maintenance of buildings, highways and street lighting, including work required for health and safety reasons. The state of the property market will continue to be assessed to determine the most appropriate time to make major sales.

70. The scale of the Council’s current capital programme brings with it new risks and risk management requirements, particularly in terms of managing the level of financial risk and commitment made at any one time across the programme as a whole, rather than simply managing the risk of a single project, or a single department’s projects. The Council is addressing this at officer level through its Major Projects Group, which takes an overview of those major projects.

71. The other general principles guiding the strategy will be:
   • To maintain a balanced budget position without the ongoing use of reserves, and as part of the budget process, to set a medium term financial plan demonstrating how that position will be maintained.
   • Spending plans will be aligned with the Council’s aims and objectives.
   • The Council will maintain a prudent level of reserves on an ongoing basis.
   • Revenue and Capital budgets will be continually reviewed and modified where necessary to ensure that resources are used effectively and targeted to achieve key objectives.

72. Airport Dividend will continue to be used for capital and spend to save schemes, including transformational projects, and to pay for the debt costs of the Aquatic Centre project.

Achieving the Efficiency Savings Required to balance the budget
73. The planning targets above show a £6.4million target for 2010/11, and, if all that can be made to be ongoing, an additional £9.4million in 2011/12. In the 2008/09 budget process savings of £6.5million were found and recommended, and in the 2009/10 process £6.9million. The Council now has the Luton Excellence Support Team well-established,
they have completed their overview diagnostics of services, and training in lean principles is being rolled out throughout the Council. While it does get harder to achieve savings since so many have been made already, and in a number of areas the amount of budget remaining is small, past performance is said to be the best guide to future performance, and on that basis the 2010/11 target should also be achievable. However, if there is new growth - £2.5million was added in the 2010/11 budget round – then the target begins to move towards a level that is much more difficult. Additionally, the 2011/12 target is extremely challenging, principally due to the assumption that pension costs will increase substantially (and that is very much dependent on the state of the financial markets, and discount rates, in March 2010).

74. For these reasons, the Corporate Leadership Management Team will be working with the Budget Development Group and the Luton Excellence Support Team to ensure that budget planning for 2010/11 and 2011/12 begins as soon as the 2009/10 budget is approved. They will also be ensuring that budget planning is integrated ever more closely with service improvement planning.