Financial Strategy

Luton Borough Council

February 2011

Financial Strategy

Purpose
1. To show how the Council intends to structure and manage its finances over the medium term, to support the achievement of the sustainable communities strategy, and the corporate plan.

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

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

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

   iii) The Council will maintain a prudent level of reserves

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

Achieving the Sustainable Communities Strategy and Corporate Plan
3. The Sustainable Communities Strategy and draft corporate plan were structured in line with the former local area agreement and the theme groups that report to the local public services board. This emphasises that the Council’s key strategic aim is to work in partnership with all other interested parties in the town, including the public sector, the third sector, and local business, to develop Luton in line with the sustainable communities strategy. While these remain the long term aspirations, the Council needs to review the position in light of the reduced resources now available for the next 4 years. To this end Appendix K to the budget report sets out the suggested strategic priorities, with a fundamental focus on prevention which improves the position of individuals and aims to minimise the impact on council services, in addition to maintaining a sound financial base in the face of the cuts in grant.

Budget Implications – Revenue and Capital
4. The performance and budget focus of the authority will be on effective preventative services, and reducing costs while minimising the impact on front line services.

Budget Prioritisation
5. Prioritisation of preventative services does not automatically mean funding.
Funding is only considered where the council can be confident that it will make a difference. Specific plans related to outcomes must be produced.

The Council is seeking efficiency savings in all areas on an ongoing basis.

The Council needs to ensure it keeps its spending in line with the resources available. This also means reviewing the level of resources actually being achieved, and adjusting spending plans accordingly. This is particularly the case where spend relies on specific grants, both in the revenue budget and the capital programme. It also applies in relation to spend funded from capital receipts. Where resources reduce, and viable alternative sources of funding cannot be found, it will be necessary to reduce the planned spend levels.

In this context, a key part of prioritisation will be finding methods of continuing to provide and improve outcomes in priority areas, for less cost.

6. The Council’s corporate planning framework also includes the following core values:
   - Embrace equality and diversity
   - Respect for others
   - Integrity
   - Customer focus
   - Improving
   - Accountable

7. These values underpin how the Council is approaching the achievement of its objectives. In the financial strategy, the accountable value is particularly relevant, and emphasises the importance of accountability to the public in the stewardship of public funds.

8. Benchmarking information will continue to be used to assess service areas, and those that are shown to be above average in cost when compared with other ‘nearest neighbour’ authorities will be challenged and reviewed, and if there is not a clear policy-driven reason for the above average level of spend, will be prioritised for budget reductions.

9. The Luton Excellence approach is fundamental to the council’s drive to improve service and reduce costs, and to finding efficiency savings to meet the targets set in the medium term financial plan.

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

11. Executive has put forward a budget based on it’s assessment of the relative priorities for unavoidable growth, and options for efficiency savings, to aim to meet the requirements of the Strategy Statement Aim 1, to maintain a balanced budget position, and to set a medium term financial plan demonstrating how that position will be maintained.

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

Capital Programme Prioritisation
13. Capital programme prioritisation is based on the Council’s capital investment strategy and asset management plan. The method used is outlined in the Budget Report.

14. Expenditure on major capital schemes (£10m and over) will be subject to specific monitoring requirements, including estimating cash flows, and reviewing them as a whole, to limit the Council’s exposure at any one time to schemes where an overspend could have a significant impact on the Council’s overall financial health.

Resource Limitations and the Financial Strategy
15. The basis of the financial strategy is determined by the Council’s current financial position. The medium term projections show that unprecedented levels of savings are required on an ongoing basis, and the Localism bill means that there will need to be a referendum should a tax increase be proposed in excess of inflation levels.

16. The capital programme is largely funded by specific resources. However, the core programme – basic maintenance of buildings, highways and lighting, and funding for house renovation grants – has to be found principally from the Council’s own resources. This means that there has to be a major focus on developing opportunities to achieve capital receipts without affecting revenue income. This requires commercial development of property opportunities available to the Council.
17. The Council’s resource position also means that the Council will have to take a commercial approach to increase funding wherever possible and seek alternative funding sources that will fund schemes in line with the Council’s vision and values.

18. At all times however the Council’s success in achieving external resources needs to be risk assessed, to ensure that the council can manage the risks taken on if the resource is accepted. In particular, as stated in paragraph 15 above, when large schemes are proposed, the risk of the overall size of the capital programme needs detailed consideration.

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

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

Airport Funding

21. The Council currently receives an annual dividend from its wholly owned subsidiary, London Luton Airport Limited. That dividend is principally focussed on funding of capital or transformational projects. Executive have also determined that the first call on the dividend will be to pay the borrowing costs of the capital expenditure incurred on the Aquatic Centre project.

22. The board of London Luton Airport Limited has approved the gift aiding of charities who provide key services for the Luton community. Service level agreements (and for Active Luton and the Luton Cultural Services Trust, funding and management agreements) are in place to ensure that charities focus on desired outcomes.

23. For as long as this continues, the approach adopted minimises the tax liability of London Luton Airport Limited. The budget risk inherent in the gift aid approach is directly addressed when setting the minimum level of reserves.

Housing Finance Strategy

24. One of the Council’s key financial strategies, originally developed during 2005-6 is to improve its own housing stock to reach the decent
homes standard, and capital resources were prioritised from general fund to the Housing Revenue Account (HRA) in order to achieve this.

25. The Localism Bill includes provision to make housing revenue accounts self-financing, removing the negative subsidy scheme and instead requiring a one-off settlement between Councils and the Government. This will mean Luton borrowing to pay off the value of that negative subsidy now and in the future. The strategy and business plan will need to be redrafted once it is clear what level of borrowing is required, and the likely interest rate payments.

**Fees and Charges Strategy**

26. A fees and charges framework was agreed by Executive in November 2010 based on the principles of viability, fairness and inclusion. The Council is currently developing a financial inclusion strategy – Executive have agreed the principles to be applied – and the approach to concessions will be reviewed subsequently, with the aim of creating a consistent approach across charges wherever possible.

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

<table>
<thead>
<tr>
<th>Viability</th>
<th>Fairness</th>
<th>Consistency</th>
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<tbody>
<tr>
<td>The Council will aim to maximise income from fees and charges by ensuring that charges to users reflect the full cost of the service provision, unless otherwise required.</td>
<td>Fees and charges should be set at a level that is fair to users and council tax payers and in line with the Council’s principles of equality, cohesion and inclusion. Commercial organisations should always pay the full cost for services received unless there is a statutory reason why not.</td>
<td>Concessions should ensure that the disadvantaged are not denied access to services.</td>
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<tr>
<td>Charging levels should take account of market demand, competition from other service providers and comparisons with charges made by other comparable local authorities.</td>
<td>A tough stance should be taken on fee dodging so that other users do not pay more to compensate for non-payers.</td>
<td>New charges should be subject to an equality impact assessment.</td>
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28. The Council has to look very seriously at every option to increase income from fees and charges, but also must ensure that increasing or
introducing charges is not in conflict with policy objectives, including the Council’s objectives for social inclusion.

Trading Strategy
29. The Council aims to optimise trading opportunities with other public sector bodies, as defined by the Local Authority (Goods and Services) Act 1970, where such trading can be certified by the relevant departmental finance manager to make a positive contribution towards the Council’s finances, and where the service manager can certify that it does not adversely affect the service to the people of Luton.

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

Value for Money
31. Each service is subject to review to maximise the savings potential.

Council Tax Strategy
32. The Council will aim to achieve the lowest level of council tax that will provide the level of services the people of Luton need and deserve over the long term, in accordance with the Council’s overall objectives.

33. Within that overall aim, the Council will seek if at all possible to keep the tax level below the unitary authority average, maintain the lowest level of tax within Bedfordshire, and set the tax at a level that will avoid capping.

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

35. The Head of Corporate Finance will also liaise with the Local Government Association (LGA) regarding their general lobbying strategy, where required to promote Luton’s interests.

36. The Chief Accountant will check that the details of the provisional grant settlement are correct prior to the end of the consultation period, and respond to DCLG if there are any specific issues. The Head of Corporate Finance will assess responses to any proposed changes by the LGA and unitary treasurers, contribute as required to protect
Luton’s interests, and determine whether a Luton-specific response should be made.

37. The Head of Corporate Finance will assess the proposals of the Local Government Resource Review and draft a response accordingly.

**Pensions Strategy**

38. The Council’s non-teaching staff are entitled to enter the Bedfordshire Pension Fund according to statute. The Council is required to fund the difference between the employee contributions, the net surplus made on investing contributions, and the total pensions payable for staff who work at Luton, past and present. Teaching staff are part of a national, non-funded scheme run by Government.

39. There is a substantial deficit on the fund relating to the costs of past service, and the Council is required to make payments to recover those past service costs over 20 years, in addition to funding the pension costs of current staff. Past service costs are dealt with via a lump sum payment, and current service costs as a percentage of staff pay.

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

41. The Council’s strategy is to pay the annual contributions to the pension fund as certified to be required by the fund’s independent actuary, and also to make additional revenue payments when funds are available, provided that actuarial estimates of likely fund returns are greater than the level of investment returns achievable by the Council. (Pension funds can invest in a wider variety of financial instruments than are open to the Council, including the stock market, so reward – and risk – are potentially greater).

**Reserves**

42. As part of the annual budget report, the Council’s section 151 officer will estimate an adequate minimum general reserve level for the general fund, and an amount that may be required to pay towards reorganisations included in the budget. The Council will strive to maintain reserves at that level, with any additional general reserve being transferred to the Invest to Save reserve, to be used in accordance with the rules of that reserve for the direct benefit of the town.

43. The minimum level of reserves for the Housing Revenue Account (HRA) has been set at £1 million in the business plan. It is noted that a
PriceWaterhouseCoopers consultant recommended reserves based upon £150 per unit, which would give £1.23million. The difference is not considered to be material.

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

**Capital Receipts**

45. The Head of Capital and Asset Management is responsible for managing the council’s property estate in order to create development opportunities, to maximise the potential for capital receipts without losing significant revenue income from asset disposals.

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

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

48. The Council’s general fund capital programme is partially funded by projections of future capital receipts. A plan to achieve the required level of receipts with no significant loss of rent has been produced by the Head of Capital and Asset Management. However, in order to develop the value of sites to avoid rent loss, many of these receipts require some years to be developed. Options such as a joint venture to create an asset backed vehicle will also be considered if they can generate a greater level of receipts.

49. The development of potential receipts is difficult and subject to delay, changes in value, and uncertainty as the market changes, adjacent properties which would add value become available or unavailable, etc. This is particularly the case at present as the property market is suffering a severe downturn. The longer term aim is to be able to move to a position where the next year’s capital programme is based on receipts actually achieved, rather than projected receipts.

50. Should receipts not be produced in line with the timetable, the programme may need further realignment.
Baseline Position
51. The Medium Term Financial Plan is a specific appendix to the Budget Report. The summary financial position shows that significant savings will be needed on an ongoing basis to balance the budget in future years.

52. Council Tax levels remain the lowest in Bedfordshire by some distance and are well below average for unitary authorities.

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

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

- Asset Management Plan and Capital strategy
- Treasury Management Strategy
- Budget and Capital Programme Report, including Budget Risk Management Strategy, Medium Term Plan and Strategy, Prudential Indicators, Protocol for the management, control and use of reserves, and Model for Assessing Levels of Affordable Borrowing
- Procurement Strategy
- Budget Monitoring timetable and reports
- Annual budget guidelines
- Capital programme instructions
- Scheme of Devolved Financial Management
- Financial Regulations
- Scheme of Cash Limits