Medium Term Financial Plan

Introduction

1. The Medium Term Financial Plan (MTFP) sets out how resources will be prioritised in order to achieve the Council's objectives, including enabling the successful implementation of the Luton 2040 Vison to tackle poverty which was launched in October 2020.
2. For many years the Council has provided value to the taxpayers of Luton by setting a Council Tax per head of population below the national average, and considerably below the level of the council tax elsewhere in Bedfordshire.
3. The current medium term plan is based on the need to find additional efficiency savings and income and delivery of the revised Deficit Recovery Plans as each year the budget starts with a core budget gap of around £5m due the lack of proper funding for local government. This plan sets out the Council's overall objectives and priorities, and how the Council can seek to achieve them in the context of uncertainties in Council funding (the 2025/26 Finance settlement is for one year, with the government consulting on reforming the funding regime via a Fair Funding Review and business rates reset) as well as additional demand for services, , inflation, the rising costs of living and sluggish growth.
4. The Council's mission statement as part of the 2040 vision is 'Luton will be a healthy, fair and sustainable town where everyone can thrive and no-one has to live in poverty', and its vision statement is that:

   As a leader and shaper of Luton we will:

   - deliver high quality services to improve the life opportunities of our people
   - work with our partners to ensure Luton is dynamic, prosperous, safe and healthy
   - celebrate our diversity and vibrancy and come together to build sustainable communities
   - provide strong leadership and a voice for the town.
5. The Council's strategic priorities, as agreed in October 2020, are as follows.
   - Securing a strong economic recovery from Covid-19, which protects jobs, incomes and businesses and enables us to build a more inclusive economy
   - Protecting the most disadvantaged in our town by prioritising services and interventions that alleviate the impact of poverty and reduce health inequalities
   - Making Luton a child-friendly town, where our children and young people grow up feeling happy, healthy and secure, with a voice that matters and the opportunities they need to thrive
   - Becoming a greener and more sustainable town, to meet our long-term ambition to be carbon neutral and climate resilient by 2040
   - A strong and empowered community supporting fairness, equality and local pride and speaking with a powerful voice
   - A future ready council, delivering modern and efficient services that help to deliver our vision for Luton 2020-2040.

6. The Medium Term Financial Plan should be read in conjunction with the following key strategies which are crucial in the delivery of the council's vision and priorities.
    - Financial Strategy
    - Luton Investment Framework
    - Housing Strategy
    - Homelessness Strategy
    - Asset Management Plan
    - People Strategy – taking into account the potential impact of the transformation programme.
    - Transformation Strategy – Luton Together and Council wide transformation programme (see separate Executive report on the agenda)
    - ICT strategy (to reflect the service being brought back in-house)
    - Procurement and Commissioning Strategies
    - Energy Policy (to reflect the volatile nature of energy costs)

National Context

Introduction

7. 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 Financial Plan discusses the broad assumptions within which the budget and MTFP are framed. The plan also reflects the financial challenge faced by the Council as a result of the impact the pandemic had on the airport causing the removal of dividend over the medium to long term. As a result of the weak economy, the Council is experiencing an increase in demand for services which has been exacerbated by high levels of inflation and interest rates as wells as the ongoing effects of the Cost-of-living Crisis.

The Economy and Public Expenditure, and Prospects for Local Authority Funding

8. The Office for Budget Responsibility (OBR) produced an overview of the economic and fiscal outlook in October 2024.
9. OBR comment that having stagnated last year, the economy is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅔ per cent, over the remainder of the forecast. The Autumn Budget policies deliver a temporary boost to GDP in the near term and some crowding out of private activity in the medium term.
10. The report's main forecasts are:
    - Real GDP growth to pick up from close to zero last year, to 1.1 per cent this year, 2.0 per cent in 2025, and 1.8 per cent in 2026, before falling back to around 1½ per cent thereafter.
    - Having fallen back to around the 2 per cent target in mid-2024, CPI inflation to pick up to 2.6 per cent in 2025
    - From its current level of 5 per cent, Bank Rate to fall to 3.5 per cent in the final year of the forecast

- The unemployment rate to fall from 4.3 per cent this year to 4.0 per cent in 2026 before returning to its estimated structural rate of 4.1 per cent in 2028
- Nominal earnings growth to fall from 4.7 per cent this year to around 3½ per cent in 2025 and then average 2¼ per cent over the remainder of the forecast
- Real household disposable income (RHDI) per person, a measure of living standards, to grow by an average of just over ½ a per cent a year over the forecast
- Nominal GDP growth to average 3.8 per cent from 2024-25
- The size of the state to settle at 44 per cent of GDP by the end of the decade, almost 5 percentage points higher than before the pandemic.
- Borrowing to rise marginally from £122 billion (4.5 per cent of GDP) last year to £127 billion this year, before falling back to £71 billion (2.1 per cent of GDP) in 2029-30.
- Net debt to fall as a share of GDP from 98.4 per cent this year to 97.1 per cent by the end of the decade.

11. The 2025/2026 provisional finance settlement was as expected except for some changes to the national totals of some additional grants and their allocation methodologies.
12. The previous government planned to move to a local authority funding system based on 75% business rate retention as part of a Fair Funding Review which was not implemented. The current government intends to resurrect that review, but with revised policy objectives of targeting resources at areas with high need, high deprivation and limited opportunity to raise additional local taxation due to a low tax base. Luton is just such an authority and so can expect to gain additional resources. However, the extent of any gain will depend on the specific metric and methodology agreed for the new allocation system. The Fair Funding review is also likely to be implemented at the same as a rest of the business rates baseline. The effect of this on Luton is unclear and therefore this adds further uncertainty to future levels of government funding. It is customary for the government to smooth the effects of changes to local government funding allocations by providing transitional relief to those suffering significant losses top sliced from the additional funding that would otherwise be allocated to authorities making gains. This is likely to cap the maximum potential gain that Luton can receive.

Financial pressures for Local Government Nationally

13. Government pronouncements in advance of the Local Government Financial Settlement indicate the intention to front load additional funding into the 2025/26 settlement with smaller additional sums in 2026/27. Besides inflationary uplifts, additional grant funding has been made available which will be targeted at high need/high deprivation local authorities with low tax bases, such as Luton. Beyond 206/27, the government is forecasting a real-terms increase to the overall public sector spending envelope of 1.3%. Given that this includes protected departments, such as Health, the impact on unprotected areas, such as local authority funding, may be limited nominal growth which fails to keep abreast with inflation and amounts to a real terms cut.
16. For the Council, the financial outlook is potentially favourable in the short-term, with that optimised tempered by uncertainties of the impact of changes to the funding

methodology and acknowledgement that finances are likely to become tighter in a couple of years' time.

Autumn Budget

14. The Chancellor announced £1.3 billion of extra funding, through the local government finance settlement, for the next financial year. Together with council tax flexibilities and locally retained business rates, this will provide a real-terms increase in total core spending power in 2025/26 of around 3.2%. Nationally, the government intends this to help meet some – but not all – of the significant pressures in adult and children's social care and homelessness support. Other measures announced in the Budget, including the Extended Producer Responsibility, special educational needs and disabilities (SEND) uplift, Household Support Fund, Bus Service Improvement Plans funding, local roads maintenance, resource funding for homelessness pressures, and the Kinship Allowance pilot, represent over £4.5 billion in additional funding for local government

Below are the key headlines which impact on Local Authorities:

- **Spending Review (SR)**. The Government will announce the outcome of the Spending Review in spring 2025. The Local Government Finance Settlement (LGFS) for 2025/26 will be another one-year settlement, which the government intends to follow next year with a three-year settlement based on the Spending Review. The certainty that a multi-year settlement will bring has been widely welcomed across local government. Indications are that funding will be front loaded with the most significant increase in 2025/26 and followed by a lesser increase in 2026/27 (the first year of new SR period). Subsequent years will have a more modest cash in increase which is likely to amount to a real terms spending cut depending on levels of inflation. Whilst the next two years may see an apparent real terms increase from the perspective of funding exceeding general inflation, but in key areas such as social care and homelessness, costs are rising faster than general inflation, so arguably there is no additional funding, indeed there is probably less than is required to keep pace with rising prices. The government is also committed to pursuing a comprehensive set of reforms to return the local government to a sustainable position. This will include reform of the approach to allocating funding through the LGFS, starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27. The government will set out further details through an upcoming local government finance policy statement. Government policy is to target additional resources to authorities with high levels of need and deprivation and low Council tax bases – Luton should gain as it is such an authority.

- **Adult & Children's social care funding**. The announcement of an additional £1.3 billion of grant funding for local authority services includes at least £600 million in new funding for social care for both adults and children. The government will provide over £250 million in 2025-26 to continue to test innovative measures to support children and reduce costs for local authorities. The Council is expecting to receive new grants for Children's Services Prevention (£1.7m) and Targeted Deprivation (£3.7m) as well as additional Social Care grant (£2m). The government will set out plans for fundamental reform of the children's social care market in Phase 2 of the Spending Review, including promoting early intervention

to help children stay with their families where possible and fixing the broken care market.

- **Disabled Facilities Grant (DSG).** The Chancellor announced an £86 million increase to DSG to support around 7,800 more adaptations to homes for those with social care needs to reduce hospitalisations and prolong independence. [Luton allocation will be announced in LGFS.]
- **Business rates.** As announced on 29 July 2024, private schools in England will no longer be eligible for charitable rate relief. However, private schools which are 'wholly or mainly' concerned with providing full time education to pupils with an Education, Health and Care Plan will remain eligible for relief. For 2025/26, eligible retail, hospitality and leisure (RHL) properties in England will receive 40% percent relief on their business rates liability – this is a reduction from the 75% relief in 2024/25. RHL properties will be eligible to receive support up to a cash cap of £110,000 per business. The government intends to introduce permanently lower multipliers for Retail, Hospitality and Leisure (RHL) properties from 2026/27, paid for by a higher multiplier for properties with Rateable Values above £500,000. For 2025/26, the small business multiplier in England will be frozen at 49.9p. The standard multiplier will be uprated by the September 2024 CPI rate to 55.5p. English local authorities will be fully compensated for the loss of income and administration costs resulting from these business rates measures. A discussion paper has been published setting the direction of travel for transforming the business rates system and inviting industry to a dialogue about future reforms. Luton will need to make changes to its systems to facilitate these changes. As previously noted, the impact of a reform and reset of the business rates system on Luton will not be clear until the government firms up its proposals.
- **Exceptional Financial Support**. The Government recognises the pressures that local authorities are facing and will have a framework in place to support those in most difficulty. At present Luton is not anticipating the need to request exceptional support.
- **National Insurance**. The government is increasing the rate of employer National Insurance contributions (NICs) from 13.8% to 15% and reducing the per-employee threshold at which employers become liable to pay National Insurance (the Secondary Threshold) from 6 April 2025 to £5,000. It is expected that the government will provide funds to cover the cost of this to local authorities. The government has made clear that it intends only to reimburse the extra costs for directly employed staff, not the associated costs incurred in contracted out services. [The adequacy of the support provided to Luton will be reviewed in the light of the LGFS.]
- **Extended Producer Responsibility** Local authorities will receive around £1.1 billion of new funding in 2025-26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from January 2025, equivalent to a further c.1.6% real-terms increase in local government resources. Exceptionally for 2025-26 only and recognising the importance of local authorities being able to effectively plan their budgets, the Treasury will guarantee that if local authorities do not receive Extended Producer Responsibility income in line with the central estimate there will be an in-year top

up, with the detail on this to be set out through the Local Government Finance Settlement (LGFS) process. For Luton the one-off allocation is £3.1m.

- **Social Housing** The Budget sets out a series of new investments to promote housing market stability and to kickstart the biggest increase to social and affordable housebuilding in a generation. This is an important step to providing the conditions needed for the market to deliver 1.5 million homes including a £500 million boost to the Affordable Homes Programme to build up to 5,000 additional affordable homes. The government will set out details of future grant investment beyond the current Affordable Homes Programme at Phase 2 of the Spending Review, to support greater investment in new affordable housing from social housing providers. Investment will run for at least the duration of this Parliament, and will support a mix of tenures, with a focus on delivering homes for social rent.
- **Right to Buy** The Chancellor announced changes to the Right to Buy scheme to reduce discounts and enable councils in England to keep all the receipts generated by sales, which delivers the government's manifesto commitment to protect existing council housing stock and boost council capacity to ensure that vital social housing is available to those who need it most.
- **Household Support Fund and Discretionary Housing Payment** The Chancellor stated that the government recognises that additional support continues to be needed to improve economic security and resilience for those families who need it most. The government will provide £1 billion, including Barnett impact, to extend both the Household Support Fund in England and Discretionary Housing Payments in England and Wales in 2025-26. This will be used by local authorities to help low-income households facing hardship and financial crisis, including supporting them with the cost of essentials such as food, energy and water. [Details of the Luton allocations will be in the LGFS.]
- **Homelessness and Temporary Accommodation** The government is providing £233 million of additional spending in 2025-26 on homelessness, taking total spending to £1.0 billion in 2025-26. This will help to prevent increases in the number of families in temporary accommodation and help to prevent rough sleeping. [Details of the Luton allocations will be in the LGFS.]
- **Social Housing Rent Settlement** The government is consulting on a new long-term social housing rent settlement of CPI+1% for 5 years to offer certainty for social housing providers and give the sector the confidence to build tens of thousands of new social homes in England. The government will be consulting on whether further measures could provide even greater certainty.
- **Local Housing Allowance Rates**. From 1st April 2024 the LHA was raised to a level equating to 30th percentile of local market rents; however, rates are to be frozen again from 2025/26. This does not have an impact on the LHA rates used by the council to claim rent subsidy from DWP as it is still based on the 2011 LHA rates, which negatively impacts the Council as it raises the cost of support to the homeless.
- **Planning Skills and Capacity** The government will provide £46 million of additional funding to support recruitment and training of 300 graduates and apprentices into local planning authorities, accelerate large sites that are stuck in the system, and boost and upskill local planning authority capacity to deliver the

government's wider reform agenda. As a high performing authority, the extent to which Luton may benefit from any of this additional funding is unclear.

LUTON'S LOCAL CONTEXT

Partnerships

15. Officers have worked closely with the NHS Luton Integrated Care Boards (ICBs) to integrate the approach to health and social care for both Children and Adults as far as possible, for the benefit of the people of Luton. Staff have been co-located in Arndale House and a number of partnership agreements signed, some for pooled budgets.

16. There are a number of other specific local public partnership bodies that provide joined up services between public sector organisations, such as in mental health services. The Council adopts a collaborative procurement approach using the Central Buying Consortium (CBC), Pro 4, and other national and local procurement groupings, as well as buying into contracts negotiated nationally by the Office of Government Commerce, and this continues to develop. One specific example where the Council's own contracting expertise is used by other public sector bodies is the temporary staffing and recruitment contract, where others buying in include Police and Fire, Bedford Borough, and Suffolk County Council. The Council has also entered into an arrangement with Hertfordshire County Council to deliver a joint Corporate Fraud service.

17. The Council continues to review options for a greater use of partnerships in the management and delivery of services, in order to achieve the levels of savings that will be required.

18. 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. Through its recruitment and retention policy, the Council aims to significantly reduce its reliance on agency staff and achieve savings in the process.

19. The Council has set up a wholly owned housing company, Foxhall Homes, to which it lends funds and sells land in order that the company can develop housing in Luton. The majority of homes developed are sold on the open market with up to 30% held for Affordable Rent. This is in line with the Council's Housing Strategy. Each investment proposal is subject to a full viability appraisal as part of a wider business case, to ensure that any investment made offers value for money for the taxpayer, and that the level of risk involved is reasonable. There must be robust governance arrangement in place to ensure decisions are properly made and there is proper monitoring, reporting and scrutiny.

Budget Approach

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. The Council no longer relies on the airport dividend to fund revenue expenditure. Any dividend in the future will be ring-fenced for capital expenditure. 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. The ongoing revenue impact of capital programme proposals is one of the key issues to be considered when reviewing the capital programme. The Prudential Code has a deliberate focus on the commercialisation agenda and will require additional

disclosures and prudential indicators on the decision-making, reliance and monitoring of the commercial estate and investments in our wholly owned subsidiaries.

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. The long-term aim is to have sustainable levels of revenue budget and capital programme focused on council priorities that will enable the council to achieve the targets of the sustainable community strategy and corporate plan, meet its statutory requirements, satisfy the aspirations of residents, demonstrate best value, and keep the Council Tax at affordable levels. This appeared a very demanding aim which will remain challenging to deliver even with a modest increased in Government grant in 2025/26, However, 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.

- **Scope for increasing non-domestic (business) rates in Luton**. One of Luton's key issues in relation to the current local government finance system is that it is already very heavily developed, with limited amounts of land available for business development, and with major housing need that also has to be considered. These issues were fundamental to the development of the local plan, which was adopted in November 2017. Significant business expansion is now key to the delivery of additional funding for Council services, and the Council's aims in this area are set out in the 2040 Vision. The closure of the Luton van factory, announced by its owner (Stellantis), will have potentially negative impact on the Council's business rates.
- **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 are particularly an issue here, and the only way they can be managed down is by implementing effective preventive measures, such as re-ablement, and edge of care services. As life expectancy continues to increase, the numbers of the elderly also increase significantly.
- **The need to reduce the amount of residual waste**. This continues to be a major financial issue facing councils. The Council has produced a draft Waste Management Strategy, which discusses the need to make a step change to enable the town to 'WasteLess, RecycleMore'. There is a significant amount of waste currently put into black bins that could be recycled, which would save money as well as have a positive environmental impact, but there may be costs in achieving this. Also, all the Council's residual waste is currently disposed of outside Luton, 80% at Energy from Waste facilities. The draft strategy states that: 'Specialist disposal and treatment options and facilities may be needed to support future waste services in Luton. These take time to develop and commission and the strategy is needed to give direction to the development of appropriate facilities to meet local and regional needs.' It is important that when any such options are developed, robust business cases are produced to assess them, and this will include ensuring alignment with the requirements of the Government's Resources and Waste Strategy – 'Our Waste, Our Resources – A Strategy for England' published in December 2018. The Council is at present retendering the waste contact and should include targets to manage the low level of recycling rates.

- The need to produce a 5-year capital programme that is fully resourced, affordable and sustainable and meets the test of prudential borrowings and also deliverable given any capacity issues.
- The financial risks surrounding major capital schemes, both individually, and in terms of their combined effect. The draft programme includes schemes which are funded by way of capital grant. Any scheme spend in excess of the grant amounts will fall wholly on the Council. Moreover, the Council has plans for future capital projects in the near future which will add to the risk.
- The assumption that London Luton Airport Limited (LLAL) will continue to fund trusts and voluntary organisations subject to LLAL financial position via charitable donations that qualify for gift aid. The overall level of LLAL donations estimated for 2025-26 is £8.2 million.
- A level of Council Tax per head of population in 2024/25 that is below the average of unitary authorities, and the lowest in Bedfordshire.
- A relatively low yield from any increase in Council Tax, due to the fact that 85% of Luton's properties are in tax bands A, B, or C, and the number currently receiving single person discount is also above average. A 1% increase in the Council Tax now yields circa £1m.
- 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.

24. The Council needs to continue to ensure that all its human resource, pay, and recruitment and retention policies for the present and future are set up, maintained and managed in such a way that no new equal pay liabilities emerge.

Capital

25. 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 as below.
26. The risks relating to the size of the programme and the overall level of loan finance proposed to London Luton Airport Limited by the end of the current programme period are addressed in the Budget Risk Management Strategy. This is a major issue for the Council, and, if the proposed level of loan finance is accepted as prudent, affordable and sustainable, 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. The capital programme includes the funding and financing of LLAL stabilisation and recovery plan.
27. The resources used to fund the capital programme have been reassessed as part of the 2025/26 budget process. This includes assumptions relating to revenue contribution to capital to fund assets with shorter economic life and capital receipts which both require ongoing review as they are market dependent. 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.

28. The Council's wholly owned airport company, London Luton Airport Limited (LLAL), is the freehold owner, but not the operator, of London Luton Airport. The LLAL Board has approved major capital development, as a consequence of its long-term vision for the airport, published as 'London Luton Airport (LTN) Vision for Sustainable Growth 2020-2050' available at https://www.llal.org.uk/vision2050.html This requires major capital investment, with the resources provided by the Council, and the borrowing is included in the Council's capital programme. The Council takes its own independent advice as to the advisability and risks involved in making such an investment. Loans made by the Council to LLAL must be at a commercial rate, reflecting the nature of the risk, to avoid any question of state aid issues. Given the Council's ability to borrow at historically low rates, this is likely to generate a significant risk premium. However, the Council, as shareholder and as investor, must be confident of the commercial viability of the scheme, and of LLAL making such an investment, as well as of the impact of the proposed level of borrowing on its own balance sheet, before proceeding. Fundamentally, to protect taxpayers' interests, the Council must be confident that LLAL will be able to repay the amounts borrowed, with interest, over the life of the loans, whether or not LLAL is able to develop as quickly and as profitably as it envisages. As LLAL financial position recovers, any further loans should take LLAL financial position and its ability to service the debt which will be part of its business plan and also any declaration of dividend after 202/25. LLAL is at present in advanced discussion with the airport company to consider the expansion of the airport and the future business plan will have to be reviewed once an agreement has been reached and the approval of the DCO on 3 January 2025.
29. The Capital programme includes borrowings to finance the acquisition of residential properties for Temporary Accommodation (TAPS). The final business case has been approved by the Executive and the Council has already engaged in the acquisition of those properties which should reduce the overspend on homelessness. The third phase of residential properties acquisition has to be supported by a detailed and robust business before the project is approved and also any investment for yield (this excludes regeneration projects) only is no longer allowed under the new PWLB guidance.
30. It is worth noting that the inclusion of projects in the programme does not mean that the Council has already committed to spend the capital funds allocated. Any commitment for a major project is subject to a full business case and Executive approval is required. The Council will also ensure that proper and robust governance arrangements are in place to ensure proper monitoring, reporting and scrutiny of any decisions including benefits realisation.

Revenue

31. The 2025/26 Local Government Finance Settlement covers one year only. From 2026/27 onwards the government intends to implement a three-year spending review and multi-year local government financial settlements. Whilst this will bring welcome benefits to medium term financial planning, uncertainty over the outcome of the Fair Funding Review and the reset of business rates needs to be considered when assessing the minimum reserve level.
32. It should be appreciated that the Council's financial profile is changing as it becomes more reliant on generating its own income, with grants reducing or ceasing and no reliance is placed on any dividend from LLA. Any future dividend from LLAL will be targeted towards financing the Council capital programme. The level of risk

associated with its income sources will increase, and hence there is a gearing effect as there is greater reliance on business rates and other income generation than grants.

33. The key assumptions in the base revenue model are as set out below.

- The revenue support grant estimate and business rates top ups for 2025-25 will be confirmed as part of the provisional settlement. At present, for future years, the model assumes no major changes arising from changes to the Business Rates Retention scheme or rates revaluation, or the fair funding review, as there is insufficient information available to forecast any potential impact. The underlying assumption is that the increase in business rate income is offset by grant reduction, and any impact of the fair funding review is mitigated by 'floors and ceilings' on levels of annual loss or gain for individual authorities, in order to avoid sudden major funding changes. This has happened previously when there have been significant changes in the formulae used to determine local government funding.
- As Local Government employees are not covered by public sector pay rises, any increase will need to go through the National Pay Body. Assumed Pay Awards built into the Medium Term Financial Plan are 3% for 2025/26, and 2% thereafter.
- For 2025/26 a Council Tax referendum limit of 2.99% (Core Services) plus an additional 2% Adult Social Care precept, with a planning assumption that increases beyond March 2026 will be capped at 1.99% and 1% respectively. The overall increase in Council Tax income, known as the increase in yield, depends upon the number of properties, and the provision for non-collection, as well as the percentage increase in council tax). Provision for price increases is limited to specific contractual requirements where there have not been underspends in previous years. Contractual inflation of 3.5% has been provided for 2025/26 with a and 2% assumption thereafter.
- Interest rates stabilising in the short to medium term. SR20 reports that government will reform the Public Works Loan Board (PWLB) lending terms. The government will cut PWLB lending rates to gilts + 100bps for Standard Rate and gilts + 80bps for Certainty Rate. This will in the main reversed the increase in PWLB back in September 2019 to 2020 which at that time made borrowings from DMO more costly and the Council has been borrowings on a short-term basis. The rate at which the Council will lend to its subsidiary companies will have to be kept under review in order to reflect the future trend in interest rates and the business cases have to be adjusted accordingly. The lending to subsidiaries does enable the Council to mitigate the interest rate risk more effectively than most other Councils.
- The currently estimated revenue impact of the capital programme does not make provision for any unprogrammed costs arising from major projects. However, the Council does have a Major Projects Reserve held to enable this risk to be addressed.
- No additional costs arising from risks shown in the budget risk management strategy apart from those listed here.
- New Homes Bonus payments ceasing at the end of 2025/26.
- Allowance for Growth identified as part of the 2025/26 budget process, including growth in Adult Social Care financed by precepts, Better Care and Improved Better

Care funding. Allowance for additional growth of £15.4m covers potential additional demographic/service demand pressures including social care, inflation and pay related increases in the supplier market.

- Provision for Business Rate appeals continuing at their current financial cost including an allowance for future appeals arising from the 2017 and 2023 revaluations. It should be noted that historically, more appeals have tended to be made towards the end of a valuation period, The slowing down of the economy may result in an increase in appeals costs as more business are closed and experiencing a reduction in their income. The impact of the closure of Vauxhall's Luton plant is not currently factored in as there is uncertainty over the timing of the closure and potential future use of the site.
- No real term increase in Business rates has been included in the MTFP as it is currently anticipated that most developments will take place within the Enterprise Zone. The effect of any business rates reset has not been assumed as this will not occur until 2026/27, and the government has yet to announce specific proposals.
- No dividend from London Luton Airport Limited (LLAL) has been included in the MTFP. Following the stabilisation of LLAL via a recovery plan and additional loans, the situation has improved; however, it will need to be monitored over the medium term. Luton airport planning conditions limit capacity to 18million commercial passengers and this capacity was reached in December 2019. LLAL is consulting as part of process to obtain a Development Consent Order to increase the passenger numbers to 32m. It is worth noting that over the next few years much of the additional income generated by LLAL will be utilised to service the high level of borrowings to fund the DART, the application for a Development Control Order, the stabilisation and recovery plan in line with the Vision for Growth, and other projects. LLAL has secured Planning Permission to increase the airport capacity up to 19million passengers per year
- Additional income generated (subject to the framework for the stabilisation and recovery plan for LLSAL) from the net effect of lending at commercial rates to enable London Luton Airport Limited to undertake its proposed development strategy.

34. No estimate has been included for significant increases in unfunded demand pressures in future years. Any such estimate would increase the savings requirement. If this is to be avoided, it is essential that positive preventive action continues to be taken, particularly in the care sector in terms of family support and enabling people to live independently. Demand management plans will be required and any growth contained within budget.

35. The delivery of the Housing and Homelessness strategy is key to manage the increase in demand in homelessness costs. This is a volatile area of the budget and remains a major cause of concern with additional demand creating a budget pressure – the current General Fund overspend forecast for Homelessness is £3.8 million no growth has been factored into the 2025/26 Budget. There is a deficit Recovery plan in place and with the purchase of two blocks under the Temporary Accommodation Scheme (TAPS) it is anticipated that the deficit will be reduced by £2million in 2025-26. It is assumed that the confirmed funding from the Improved Better Care Fund, along with the Council's share of the increase in the Better Care Fund, and additional Social Care grant in 2025/26 are wholly used to fund pressures in the Adult and Children Social Care budget. The MTFP assumes that this funding will continue at

the increased levels announced in the Autumn Budget. It also assumes that the government will fully fund the gap in social care or allow Councils to levy and additional precepts of 2% to cover those budget pressures. Any reductions or changes top those assumptions will increase the funding gap and will exacerbate the pressure to continue to deliver vital services.

Medium Term Financial Plan

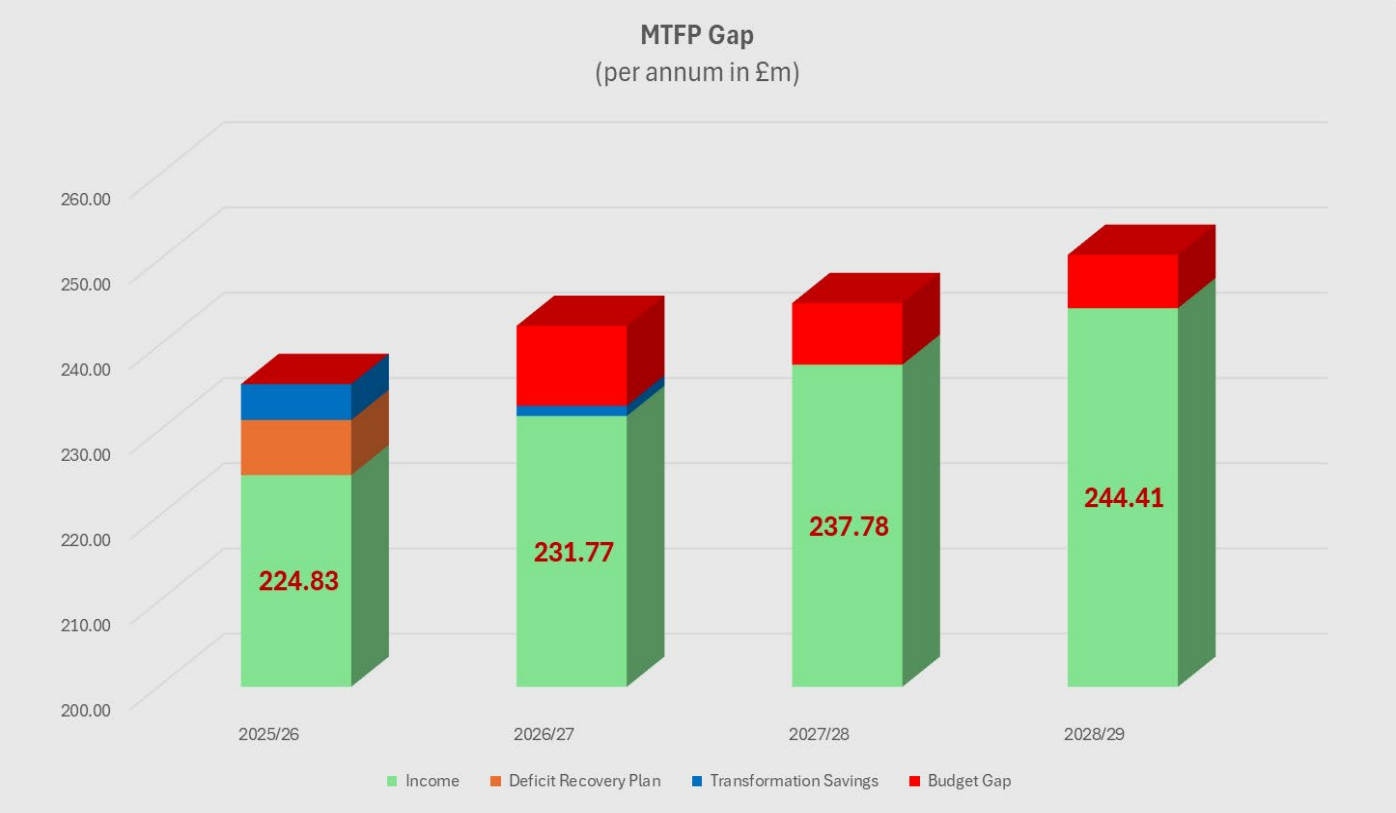
36. The MTFP has been prepared for the next four years as it is difficult to forecast beyond that time frame due to uncertainties over multi-years Local Government Finance Settlements and the outcome of the Fair Funding Review, both of which will report in 2026/27. The starting budget for each year is net of estimated changes in capital financing, etc., and the assumptions set out in the bullet points in paragraph 63.

37. The table below takes forward the Medium Term Financial Plan for the following 4 years - assuming that the net impact of underlying Business Rates growth is roughly in line with inflation, the equalisation method (yet to be determined) protects the Council against loss as a result of the introduction of the new system, the top-up and safety net arrangements are protected, and the investment framework is successful in delivering further business rate expansion.

MTFP Three Year Summary	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**
Net Service budgets inc capital financing costs	**211.88**	**225.82**	**228.32**	**232.92**
Increases in costs (unavoidable) and net additional growth	13.94	11.87	11.82	12.35
Net Service costs	**225.82**	**237.68**	**240.14**	**245.26**
Interest payable & Treasury Management	22.20	27.45	29.93	31.24
Capital financing costs and MRP	-9.33	-5.93	-4.15	-2.02
Specific grants, S31 and NHB	-26.77	-27.79	-28.56	-29.35
Reserves and Contingency	12.91	9.71	7.65	5.53
Total before income and Grants	**224.83**	**241.13**	**245.00**	**250.66**
Income from LLAL - interest and rent	-41.49	-41.49	-41.49	-41.49
Additional income other inc residential investments	-5.73	-8.77	-10.28	-10.28
Total after Income and before Grants	**177.62**	**190.86**	**193.23**	**198.89**

MTFP Three Year Summary				
Net Expenditure	**177.62**	**190.86**	**193.23**	**198.89**
Funding:				
RSG	-13.83	-14.11	-14.39	-14.68
Business Rates	-35.37	-36.27	-37.08	-37.82
Business Rates Top Up	-13.53	-13.60	-13.79	-14.06
Adult Social Care Precept	-17.26	-18.64	-20.09	-21.57
Total Government Grant	**-79.99**	**-82.62**	**-85.34**	**-88.12**
Council Tax	-93.06	-96.89	-100.66	-104.52
Cfund (surplus)/Deficit	-4.57	-2.00	0.00	0.00
Total Council Tax and Grants	**-177.62**	**-181.50**	**-186.01**	**-192.64**
Cumulative Gap	**0.00**	**9.36**	**16.59**	**22.84**
In Year Gap over next three years	**0.00**	**9.36**	**7.22**	**6.25**

38. As per the chart below, further yearly savings as part of the deficit recovery plan and transformation programme (2025/26: £1.2m and £1m per annum from that point onwards. This is based on the optimistic assumption no further long-term impacts of the care and homelessness service pressures and/or the slowing down of the



economy. The latest forecast shows that inflation is coming down with the Bank of England making modest reductions in the base rate. Given the financial challenge facing local government and the impact of the costs of living crisis and increase in demand for services, all these assumptions are relatively high risk and hence the actual budget gap could be significantly more, as shown in the sensitivity analysis in Appendix B. Moreover, a detailed savings delivery programme has to be developed with benefits realisation plan and buy-in from departments which should promote responsibility and accountability. This has to be integral part of the Councils transformation and Future Ready agenda to address future budget gaps and deliver 2040 vision.

Sensitivity Analysis

39. There are a vast number of very possible events which could change the figures significantly. For example:

- Each 1% variation in the pay award would result in approximately £1.3m variation in costs for each year concerned;
- Each 1% variation in non-pay contractual inflation would result in approximately £1.35m variation in costs for each year concerned;
- Each 0.5% variation in the Council Tax yield would result in approximately £0.5m variation in income for each year concerned;

- Each 1% variation in the Council's business rates base would result in approximately £0.5m variation in income for the year concerned in the years to 2025/26.
- There could be significant new growth, due the slowing down of the economy and cost-of-living crisis over and above the amounts included in the plan.
- There could be significant additional spend pressure from demand-driven services, particularly care services, if prevention and edge of care services are not effective in keeping costs down.
- No dividend from LLAL is included in the Council's MTFP.
- If the fair funding review results in a new formula which reduces the Council's Business Rates Top-Up, and the 'floor' to limit the level of year-on-year reduction allows for a significant reduction, the Council's income could be significantly reduced.
- The plan assumes successful delivery of significant projects such as Foxhall Homes and investment in both commercial and residential properties which are largely dependent on the state of the market and economy and are in compliance with the recent guidance issued by Treasury, MHCLG and CIPFA. Any deviation from the final business case and business plan will inevitably lead to additional pressure on the Council's budget.
- The full implementation of Government's welfare benefit changes could have a significant impact on the position. It is likely to make Council Tax debt collection more demanding and could impact on non-collectable amounts. Further, the changes are likely to make historic housing benefit overpayments very difficult to collect. Many are being collected as direct deductions from current benefit payments at very low monthly levels. When the ability to make direct deductions is removed, the feasibility of further collection will have to be assessed.
- The overall economic position of the country when the 2025 Spending Review takes place may impact on the levels of funding available to local authorities generally, including Luton. There are also opportunities as well as risk. The cost of new borrowing has been estimated to be 5% and falling gradually over the years, and it is possible that lower rates may be achieved, although rates remain uncertain and potentially volatile until the moment an agreement is signed.
- The base budget position could vary from that shown. It could be significantly worse if Deficit Recovery Plans fail to address the core deficit and /or if there are major overspends on capital programme. It could be better than shown, if the savings are delivered and there is slippage in the capital programme, which will then improve the capital and interest position.

40. On this basis, when considering targets for planning purposes, the Council needs to bear in mind that the figures shown in the medium term estimates table are a single point in a range of potential outcomes. The level of savings required each year could easily vary upwards or downwards.
41. A number of the documents that are published with and alongside the 2025/26 Budget Report should also be seen as a vital part of the medium term financial plan. In particular, they are the Budget Risk Management Strategy (Budget Report Appendix B), the Financial Strategy (Budget Report Appendix C), the analysis of Government Funding (Budget Report Appendix D), the assessment of capital resources (Budget

Report Appendix G) the assessed lists of proposed savings (Budget Report Appendix L), the unavoidable growth items (Budget Report Appendix M), and the Treasury Management and Investment Strategies.

Medium Term Financial Strategy

42. The medium term financial plan and sensitivity analysis above shows that the position for future years involves significant financial risks and uncertainties.

43. This strategy aims to maximise income generation and efficiency savings and keep down costs in order to minimise the impact on essential services to the public. However, the extent of the savings that have already been made in previous years does mean that it is more challenging each year to find major further efficiencies.

44. The key principles in the Council's medium term financial strategy are as follows.

- Dividend from LLAL has been removed in the MTFP so that the airport company can meet its financial commitments. Any future dividend is likely to be used to finance the Council's capital programme.
- A focus on affordable and sustainable service provision that accounts for environmental impact.
- Draw down on reserves to meet one-off increases in expenditure or loss of income with replenishment plan in future years.
- The transformation programme will require additional investment both capital and revenue with savings and benefits to be realised in the near term. Any use of reserves has to be approved by the Executive with clear and robust delivery and benefits realisation plan supported by robust business case.
- Officers will continue to embed the principles and practices of the 'lean' approach, in order to improve service provision and reduce costs on an ongoing basis. Delivery of a comprehensive a detailed transformation programme "Future Ready" and realisation of cashable benefits
- The potential for net additional income (over and above any additional costs incurred in raising that income) will be rigorously assessed and effort invested into viable schemes to improve the Council's financial position.
- Further efficiency savings will be continually sought and placed on the corporate savings list, with clear accountabilities for delivery by project managers, project leads, and project sponsors. This must take into account the lasted benchmarking figures produced as part of CIPFA resilience index and OFLOG
- The resources of the Strategic Change Team and Corporate Procurement support team will be focussed on areas where they can have the greatest corporate impact and return on investment. The structure and composition of the team has to be fit for purpose in light of the Council-wide Transformation programme.
- Specific 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, homelessness and the costs of looked after children especially out of borough placement. This will focus on improving the life-experience and independence of the vulnerable and ensuring that appropriate levels of care are

provided. Each service plan has to demonstrate how services are meeting the "best value" principles.

- The Council will continue to seek ways to maximise recycling and minimise landfill as part of the Waste review which should form part of the new contract
- The Council will aim to work co-operatively with its public sector neighbours, and any other appropriate authorities, to develop a shared service approach to the provision of services, particularly back-office services, in order to rationalise service provision and minimise costs. A benchmarking exercise will be carried out on a regular basis and best practice adopted.
- 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 by exploiting opportunities through procurement and commissioning.
- As the IT service is being brough back in-house, the council will aim to use information technology to support transformation, reduce long-term requirements for office accommodation, minimise manual administration and hence reduce costs. Resources allocated towards improvement programmes have to be supported by a robust business case with benefits realisation plan and a payback which reflects the risk associated with the project e.g. less than 5 years for IT projects. The aim is also to use human resources services as an agent of organisational development to improve service and minimise costs.
- The transformation of the council will continue be based on the design principles adopted which included, once opportunities for efficiency and service modifications have been optimised, determining which are essential services and prioritising non-essential services for cuts, and moving towards a commissioning approach as the default position for service provision.
- 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 continue to 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 on a timely basis in order that the budget can be managed effectively at an overall level, avoiding unexpected overspends and/or underspends 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 council will continue to seek to develop its commercial approach, without impacting on the services to the vulnerable.
- The Council will use technology and connectivity to exploit digital opportunities and drive value for money as part of the modernisation programme.

45. A key aim is to continue to improve collection of Council Tax and Business Rates, 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. This may prove to be a challenge due to the cost-of-living

crisis. However, every effort has to be made to ensure that of collection rates and debt recovery are comparable with other statistical neighbours.

46. The Council will strongly encourage appropriate business development in the town and in the Enterprise Zone.

47. 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.

48. 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 is currently being assessed and will be subject to further detailed reports. Foxhall Homes gives the Council an opportunity to develop its land for residential purposes through its wholly owned subsidiary company.

49. The scale of the Council's current capital programme brings with it 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.

50. Constant monitoring of the level of borrowings an assessment of financial reliance of the Council and its subsidiaries to ensure that the level of borrowings is prudent, affordable and sustainable taking into account the projects financed by those borrowings. This has to be constantly monitored to reflect the recovery of the airport post pandemic. A disproportionate level of borrowing may have an adverse impact the Council credit ratings and future rates at which the Council can borrow and /or refinance existing borrowings.

51. The other general principles guiding the strategy will be:

    - To maintain a balanced budget position which is robust, affordable and sustainable 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. Any use of reserves in the short-term has to be replenished over the medium term.
    - Spending plans will be aligned with the Council's aims and objectives and also the Luton 2040 vision.
    - The Council will maintain a prudent level of reserves on an ongoing basis. The level of reserves has to be increased to reflect the change in the level of risks as the Council has significant income generated form commercial activities which is at present quite volatile, and the landscape has changed as a result of the pandemic – more people working from home and lees need or retail and office premises.
    - 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 and offers value for money.

Cost of change

52. A key issue for forthcoming budgets is the cost of making the levels of change that will be required to make the budget reductions necessary. For the 2025/26 budget there may be some redundancies and associated costs of pension strain to the authority for those able to claim their pension early as a result of redundancy (those between 55 and their standard retirement age). The planning figures assume this cost being met from revenue provision.