Medium Term Financial Plan

Introduction

1. The medium term financial plan 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 expected reductions and uncertainties in future Council funding (Finance settlement just for one year) as well as additional demand for services, challenge posed by the COVID-19 pandemic, inflation, the rising costs of living and looming recession.
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

16. 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 plan also reflect the financial challenge faced by the Council as a result of the impact the pandemic has had on the airport and the removal of dividend over the medium to long term. As a result of the pandemic, the weak economy, the Council is experiencing an increase in demand for services which has been exacerbated by the increase in interest, inflation and the Cost of Living Crisis.

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

17. The Office for Budget Responsibility (OBR) produced and overview of the economic and fiscal outlook in November 2023. The report highlights the economy has proved to be more resilient to the shocks of the Pandemic and Energy Crisis than anticipated. Notwithstanding this, they now expect the economy to grow more slowly than originally forecast, with GDP stalling in the third and fourth quarters of 2023/24 resulting in growth of only 0.6% in the financial year as a whole. Whilst CPI Inflation fell to 3.9% in November it is not expected to return to its 2% target rate until the first half of 2025. As a result, markets now expect interest rates will need to remain higher for longer to bring inflation under full control. The report also draws attention to the forecast increase in government debt, rising from 97.9% of GDP in 2023-24 to a peak of 98.6% of GDP in 2024-25. The OBR forecasts inflation to fall gradually over the next few years and to hit the 2% target in the second quarter of 2025 and then to dip below the target driven by further falls in energy costs and food prices ahead of returning to the target by the end of the forecast period.

18. EFO central forecast for 2024/25 have been revised as follows:
    - real GDP growth of 0.7%, compared to forecast contraction of 1.4% in 2023
    - unemployment to rise to 4.6% by the 2nd quarter of 2025.
    - Public Sector net borrowing (Deficit) to be at £123.9bn (4.5% of GDP) compared to £177bn in 2023

19. OBR notes that the war in Ukraine and the recent conflict in the Middle East impact on the Global Economy, in particular regarding the supply of oil leading to price rises of between 56% to 75% and cautions there is considerable uncertainty as to the depth and duration these conflicts will have on the Global Economy.
20. OBR sees the legacy of Covid-19 and impact of global conflicts continuing to have adverse economic impact for two to three years. Its overview of the central economy forecast is provided in the table below:

Economy Forecast						
Year	2023	2024	2025	2026	2027	2028
Gross Domestic Product (GDP) %	0.6	0.7	1.4	2.0	2.0	1.7
Inflation (CPI) %	7.5	3.6	1.8	1.4	1.7	2.0
Employment (million)	32.9	32.9	33.1	33.4	33.8	34
Average Earnings Growth %	6.8	3.7	2.2	2.0	2.5	2.8
Unemployment Rate (million)	1.4	1.6	1.6	1.5	1.5	1.5
source: OBR forecast Nov 2023						

21. The 2024/2025 provisional finance settlement was as expected except for a further reduction in the LA Services Grant. It is quite concerning that the Fair Funding Review and d Business Rates Reset have all been deferred for at least another two years.
22. Previously government aimed to move to a local authority funding system based on 75% business rate retention in 2020/21. If this proposal is carried through, exactly how it is done will be key, as it was proposed to be accompanied by a resetting of the initial funding assessments for each authority, based on the technical consultations carried out in recent years. The previous Government was looking at formulae that recognised additional costs of sparsely populated rural areas, such as extra transport costs, rather than recognising costs that specifically arise in densely-populated areas like Luton or London.
23. It should also be noted that increased business rate retention brings with it additional ongoing financial risk, as well as the opportunities that should arise if the Council can successfully enable development in accordance with the aims of its Investment Framework. The risk not only relates to the health and development of the local economy, if businesses reduce their operations in Luton, but also to technical appeals by businesses against the recent business rate valuations made by HMRC's Valuation Office.

Financial pressures for Local Government Nationally

24. Spending Review 2020 (SR20) which was before the Ukraine war resulted in local government receiving an average core spending power increase of 4.5%. This increase in CSP is better than in any year for more than a decade and represents real terms growth. It will do very little to address local government's funding shortfall. Analysis show that 87% of the increase in CSP is from council tax increases, and is accompanied by relatively low increases in grant funding. Very little of the new grant increases are funded with new money. Almost all of the increases are funded by raiding the New Homes Bonus returned surplus. Further analysis of the CSR and allocation for Luton is discussed in the Revenue Budget report, which shows that Luton allocation has been below England average. However as a result of the war in Ukraine, rising cost and interest rates, the landscape has changed over the second half of last year.

The Autumn Statement

25. The Autumn Statement set wider changes to public spending which will raise borrowing by an average of £5.8bn between 2024-25 and 2028-29. These include an uplift in Local Housing Allowances (LHA), aimed at addressing the increased cost of housing for benefit claimants, costing £1.7bn by 2028-29. Other resource spending is expected to increase by an average of £4.7bn a year, largely due to public sector pay increases.

26. The Autumn Statement also allows for higher capital spending in the near term, in line with Departmental Plans, but is £4.1bn lower in 2028-29 as the Post SR spending assumption is rolled forward..

27. The Band D "core" threshold has also increased, giving all local authority's the opportunity to increase Band D by 2.99% in 2024-25 rather than the historic cap of 1.99%.

28. Capital receipts from the sale of land, buildings and council housing, which were the traditional source of funding for Council capital programmes, are difficult to realise outside London and the most affluent areas in the current property market. Overreliance on capital receipts to fund the Council's capital programme is a risk and the Council will have to consider setting up a sinking fund to fund assets used in the delivery of Council's services. Future capital receipts are not sufficient to fund the Council capital programme and reliance will be placed on additional borrowing which has to be both affordable and sustainable. The Council also has a high level of borrowing due to its involvement with the airport and Foxhall Homes in form of various loans to finance LLAL and Foxhall Homes capital programme (which creates valuable assets) and the LLAL stabilisation and recovery plan to deal with the impact of COVID-19 on the airport.

29. The costs of the local government pension scheme are reviewed every 3 years and for Luton, following the 2022 review, the employer contribution in respect of the deficit recovery for past service decreased by an average of £6m per annum in years 2023/24 to 2025/26. Unlike civil service pensions, which are funded by government on a pay-as-you-go basis, local government is required to account for, and make payments into the pension fund now, to cover the costs of all current and future pension entitlements that have been earned to date by its staff, past and present. Therefore, longevity estimates of pensioners and staff in the pension scheme are an

important component in the Council's finances, and are made by independent actuaries. In 2022 the Bedfordshire Pension Fund, of which the Council is a member, was estimated by the fund's actuaries to be 91.8% funded (2019: 79.4%). Hence the Council's current payments to the Pension Fund includes a lump sum each year to pay for that past service deficit which has now reduced, as well as covering the estimated costs of the future pensions benefits currently being earned by existing staff, that are not covered by employees' own contributions

Inflation

30. The Consumer Price Inflation (CPI) index, is forecast to fall gradually over the next few years and to hit the 2% target in the second quarter of 2025 then to dip below the target driven by further falls in energy costs and food prices ahead of returning to the target by the end of the forecast period. This should help ease the impact of the Cost of Living Crisis. Public Sector Pensions from 2024 were inflated using the Consumer Price Inflation index as at September 2023 (6.7%) The retail price inflation index, or RPI, was 8.9% in September 2023. As RPI is higher than CPI, inflation remains a pressure on the Council's budget in the medium term, and good contract management will be required in order to mitigate any financial risks. The impact of inflation has been factored in the MTFP and any future changes will be closely monitored.

Education Funding

31. Schools and school-related funding is provided 100% by the Department for Education (DfE), in the form of the Dedicated Schools Grant (DSG), although Councils do have the power to make further contributions of their own, if they can afford to do so. The Government has now introduced a national funding formula. An explanation of the funding method is included in the main budget report.

Health Funding

32. Public Health is funded from a ring-fenced grant. While the budget is prepared on a net nil basis (the budget assumption being that the grant is fully spent) the importance of public health to the financial strategy is fundamental, in that successful public health campaigns and outcomes will in the long term reduce the numbers requiring care, as well as reducing hospital admissions. Under SR20 public health grant to local authorities are to be maintained. Local Government Association projects that the public health grant would have to increase to at least £3.9b by 2024/25 to match growth in overall NHS funding as part of long term planning. The grant for Luton has been maintained without any real terms increase.
33. The Council is of the view that Public Health has a key role to play in order to improve the well-being of the community. There are two Service Directors who have specific health responsibilities as well as holding commissioning roles.

Improved Better Care Fund.

34. The Improved Better Care Fund (iBCF) is paid directly to local authorities, whereas the original Better Care Fund is paid to Integrated Care Boards (ICBs), with priorities agreed jointly. A key issue for the financial future of local authorities is working effectively with the local Integrated Care Boards (ICBs)) to ensure both parts of the Better Care Fund are used to improve outcomes and achieve savings across the health and care systems. Luton signed a contract with the Luton Clinical Commissioning Group (CCG) and pooled some budgets and joined up health and care services. Luton, Bedfordshire and Milton Keynes CCGs joined and form one single CCG with effect from April 2021.

New Homes Bonus

35. New Homes Bonus was designed to reward local authorities who encourage large-scale development in their areas, to enable the level of new build required to meet the projected housing need. The level of overall funding has reduced, initially as a result of a 2015 decision by Government to use funding previously allocated for this purpose to pay for support to Adult Social Care. The bonus, previously payable on all new home building, is now only available if the number of homes in an authority's area exceeds the national average level of increase, set at 0.4% of the existing number of homes. This 0.4% has become known as the 'deadweight', for which no bonus is received. For Luton this severely restricts the prospect of receiving additional bonus, as there are limited prospects for large-scale residential developments due to the lack of availability of land. New Homes Bonus allocations have been made for 2024/25 but continuation of the grant beyond March 2025 remains uncertain.

LUTON'S LOCAL CONTEXT

Partnerships

36. 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.

    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.

37. 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.

38. 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.

39. 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 tax payer, 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

40. 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.

41. 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.

42. 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 prior to this period of sustained reductions in Government grant, and is even more difficult now. However, budget setting in any one year cannot be seen in isolation from the medium–term projections and this long-term aim.

43. 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. It is worth noting that the pandemic has had significant impact of the income generated form 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 increases 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 2024-25 is £8.5 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 £900k.
- 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.

44. 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

45. 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.

46. 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.

47. The resources used to fund the capital programme have been reassessed as part of the 2024/25 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.

48. 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 2024/25. 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 have been reached and the approval of the DCO.

49. 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.

50. 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

51. The 2 year Local Government Finance Settlement covered financial years 2023/24 to 2024/25 and gave the Council some certainty over a significant part of its income base for that period. This was important as the Council aimed to increase its trading income and make investments that are intended to generate significant additional income in return. There is no certainty beyond March 2024 and this needs to be considered when assessing the minimum reserve level.

52. It needs to 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 form LLA. Any future dividend form LLAL will go 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.

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

    - The revenue support grant estimate and business rates top ups for 2024-25 have now been confirmed as part of the provisional settlement. 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. The 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 4% for 2024/25, 3% for 2025/26 and 2% thereafter.
    - For 2024/25 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 2025 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 are limited to specific contractual requirements where there have not been underspends in

previous years. Contractual inflation of 4.7% has been provided for in 2024/25 with a 3% assumption for 2025/26 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 un-programmed 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 after a couple of years.
- Allowance for Growth identified as part of the 2024/25 budget process, including growth in Adult Social Care limited to precepts, Better Care and Improved Better Care funding. Allowance for additional growth of £18.4m 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.
- A £0.5m provision for additional costs that may arise from the revaluation of the pension scheme. This will be reviewed in two years' time based on the next Actuary Triennial Review.
- 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.
- Dividend from London Luton Airport Limited (LLAL) is been removed from the Council's budget following the effect of travel restrictions on the aviation sector and no dividend has been included in the MTFP. LLAL requires further stabilisation, a recovery plan and additional loans. The situation has improved however needs 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.

54. 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.

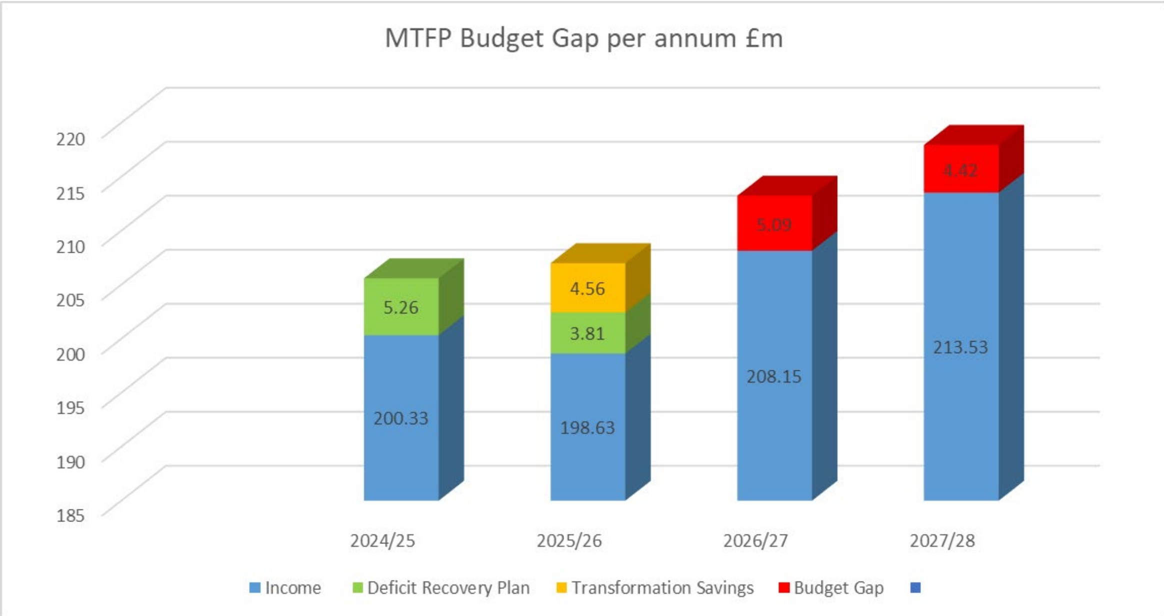
55. The delivery of the Housing and Homelessness strategy is key to manage the increase in demand in homelessness costs. This is a volatile area of the budget and remains a major cause of concern with additional demand associated with the pandemic likely to add pressure – the current General Fund overspend forecast for Homelessness is £3 million and growth of £0.7m has been factored into the 2024/25 Budget. 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 2024/25 are wholly used to fund pressures in the Adult and Children Social Care budget. The Spending Review has confirmed that these are now part of the base funding. Hence, the MTFP assumes that these funding will continue in the foreseeable future and no reduction is anticipated as part of the next spending review. It is 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.

<u>Medium Term Financial Plan</u>

56. The MTFP has been prepared for the next four years as it is difficult to forecast beyond that time frame due to uncertainties over Local Government Finance Settlement and the outcome of the Fair Funding Review, both of which have been further delayed. 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.

57. 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. As per the chart and table below, further yearly savings as part of the deficit recovery plan and transformation programme (2024/25: £5.26m, 2025/26: £8.37m, 2026/27: £5.09m and £4.42m in 2027/28. This is based on the optimistic assumption no further long-term impacts of the covid-19 pandemic and/or the slowing down of the economy. The latest forecast shows that inflation is coming down and the Bank of England has not increased the base rate recently. 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

58. 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 £1.0m variation in costs for each year concerned;
- Each 0.5% variation in the Council Tax yield would result in approximately £0.4m variation in income for each year concerned;
- Each 0.5% 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 2024/25.
- 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.

- The dividend from LLAL has been removed from the Council's MTFP. There is a stabilisation and recovery plan to deal with LLAL financial pressures arising from the Pandemic
- 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 next 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 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.

59. 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 by £2m per annum either way.
60. A number of the documents that are published with and alongside the 2021/22 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

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

62. 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.

63. 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 will 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 would require additional o investment both capital and revenue with savings and benefits to be realised in the near term. Any use of reserves have to be approved by the Executive with clear and robust delivery and benefits realisation plan supported by robust business case.
- Any additional costs or losses of income associated with Covid-19 will no longer be supported by government.
- New ways of working being consolidated given the learning from the pandemic as well as the flexibility enabled by technological advances.
- 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.

64. 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..

65. The Council will strongly encourage appropriate business development in the town and in the Enterprise Zone.
66. 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.
67. 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.
68. 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.
69. 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 are 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.
70. 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 have 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

71. 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 2024/25 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.