Luton

Item No:
8

Report For:	**Executive**
Date of Meeting:	13 January 2025
Report Of:	**Director of Finance, Revenues and Benefits**
Report Author:	**Dev Gopal**
Subject:	**Draft Revenue Budget and Capital Programme 2025/26**
Lead Executive Member(s):	**Cllr Robert Roche**
Wards Affected:	All
Consultations:	Councillors ☑ Scrutiny ☑ Stakeholders ☑ Others ☑

Recommendations

1. The Executive is recommended to:

A.

i) Note the draft 2025/26 revenue budget, as set out in the Revenue Budget Summary (Appendix N – Green book page 2).

ii) Note officers continue undertaking a public and stakeholders engagement exercise which started in October 2024 and will finish in January 2025 to inform the Executive's consideration of the budget at the Executive meeting on 10 February 2025.

iii) Note that the engagement exercise will in particular seek views on the proposed list of savings proposals (Appendix M – Green book pages 24-25), the list of spend pressures (Appendix L – Green book pages 22-23), and the proposed increase in the Council Tax precept of 2.99% and a ring-fenced Social Care precept of 2%.

iv) Request that officers incorporate the outcomes of the engagement and feedback from the Finance Review Group in the report to Budget Executive on 10 February 2025.

B.

2. Subject to further consideration of responses to the engagement exercise and recommendations from FRG, the Recommendations for the 10 February 2025 2nd Executive Report are set out below.

i) Approve the 2025/26 revenue estimates of net expenditure including movements in reserves and use of one-off Collection Fund Surplus to balance the revenue budget, as set out in the budget papers (known as the 'green book') circulated, and in this report, for submission to budget Council.

ii) Consider the items put forward for inclusion in the draft capital programme (set out in the Green book pages 27 to 44) and the potential funds available (Appendix G), and approve the items and amounts to be included in the capital programme for 2025 – 2030 subject to the condition that all new schemes require Executive approval (on the basis of a full detailed business case, business plan and financing options) before they can proceed.

iii) Approve the list of savings proposals amounting to £10.7m (Appendix M) for submission to budget council, and approve the service changes necessary to give effect to those savings subject to appropriate consultation taking place and being properly considered.

iv) Approve the list of spend pressures and budget growth in 2025/26 amounting to £22.1m (Appendix L), and approve the service changes necessary to give effect to those growth proposals.

v) Approve additional growth of £11.7m to deal with the 2024/25 forecast budget overspend mainly in demand led services.

vi) Consider the results of the budget engagement exercise and consultations described in paragraphs 52 to 60 below.

vii) Approve a 2025/26 band D Council tax precept for Luton Borough Council of £1,622.70 and Social Care precept of £300.92 for submission to budget Council.

viii) Recommend the revenue budget for approval to Council in the format prescribed by the Local Government Finance Act 1992, subject to the confirmation of the Fire and Police precepts, noting that the Revenue budget recommendation will need to be accompanied by a report from the Director of Finance, Revenues & Benefits on the 'robustness' of the budget proposal, accompanied by a Statement on Reserves and Provisions, in accordance with the requirements of Section 25 of the Local Government Act 2003.

ix) Approve the funding formula for primary and secondary schools, plus the centrally retained and early years allocations of the 2025/26 central Dedicated Schools Grant, as proposed by the schools forum and set out in paragraphs 118 -128 of Annex 1 and appendices J & K (to follow).

x) Approve the development of the Financial Strategy as set out in appendix C.

xi) Approve the future release of the contingency provision in appendix B by the Chief Executive in consultation with the Leader of the Council and Director of Finance, Revenues and Benefits.

xii) Note that delivery of Deficit Recovery Plans and savings identified from the Transformation Programme are critical to being able to set a balanced, affordable and sustainable budget over the medium to long term and would require close monitoring, reporting and prompt measures taken in case of non-delivery.

xiii) Note the projected budget gap excluding the deficit recovery plan over the medium term as set out in paragraph 96 of Annex 1, which shows that the base budget level of savings required over the four years amounts to £33.5m including transformation savings of £10.7m in 2025/26.

xiv) Approve the Budget Risk Management Strategy set out in appendix B as a key part of the 2025/26 budget, for submission to full Council.

xv) Approve the protocol for the Management, Control and Use of Reserves set out in appendix F.

Executive Summary

3. The national and global economy is affected by number of negatives factors including sluggish economic growth, the ongoing cost of living crisis, and persistently high interest and gilt rates. These effects are made worse by overseas conflicts, potential trade wars and volatile exchange rates, compounded by the uncertainties arising from a change of government in the UK and President in the USA. These factors have had a huge impact on Local Government finance in general and the financial position of Luton Borough Council in particular. This will continue to be the case in 2025/26 as the economy will grow slowly over the short to medium term according to the Office of Budget Responsibility, even if the UK enjoys highest growth in G7 as the OECD project.

4. This challenging economic environment has resulted in increased demand for core council's services, particularly children and adults' social care, SEND transport, supported living and homelessness and the unavoidable requirement to allocate money to address these demand pressures means that there will be less funding available for other services. The ever-increasing pressures in demand-led services has resulted in an updated potential core budget deficit of circa £12.7m for the year 2024/25. The 2025/26 budget has only been able to be balanced by factoring in £10.7m of transformation savings including deficit recovery plan and use of one-off Collection fund surplus of £479k. Delivery of Deficit Recovery Plans and Transformation Programme savings will be pivotal to set a balanced and sustainable budget over the medium term. Any delay in delivery of the savings may result in the Council not having a balanced budget and any further use of reserves would be an early warning sign of risk regarding financial resilience of the Council. This position is not unique to Luton but systemic throughout Local Government, with increasing numbers of council's having to issue Section 114 Notices.

5. The Provisional 2025/26 Funding Settlement, released by Central Government on 18th December, provides local authorities with £69bn in funding, representing on average a 6% increase in core spending power in 2025/26—equating to more than £2bn in additional funding, according to government figures. However, closer analysis shows that councils in deprived and urban areas are set to receive greater funding increases than those in more affluent and rural parts of England. Data from the Institute for Fiscal Studies (IFS) shows that core spending power is set to rise by 6.4% in real terms for the most deprived tenth of councils, compared to just 2.6% for the least deprived tenth. This trend can be attributed to the government's emphasis on targeting funding to areas with higher levels of need and deprivation. Luton is such as council as a result receives an increase of £18.5m (8.8%) in core spending power. Existing social care grants increase by £2.9m (9.8%) with the majority of the increase via new items: Recovery Grant (£6.3m) and Children's Social Care Prevention Grant (£1.2m). Other grants actually fall slightly due to the abolition of Services Grant and a reduction in entitlement to New Homes Bonus. Whilst the increase in Core Funding is welcome, this only accounts for a small proportion of the Council's Net Revenue Budget – meaning the Council has no option but to increase Council Tax by the maximum permitted percentage without a referendum in order to safeguard essential services. LGA analysis shows that due to inflation and wage pressures alongside cost and demand pressures, English councils were facing a £2.3 billion funding gap in 2025/26, rising to £3.9 billion in 2026/27. This is a £6.2 billion shortfall across the two years. The Provisional Settlement does not fully bridge that gap.

Luton

Autumn Budget 2024

6. The Chancellor presented her Autumn Budget on 30th October which 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, include the Extended Producer Responsibility, special educational needs and disabilities (SEND) uplift, Household Support Fund, Bus Service Improvement Plans funding, local roads maintenance, and resource funding for homelessness pressures.

Below are the key headlines which impact on Local Authorities and Luton Borough Council:

- **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. 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. However any new formula when first applied would include floors and ceilings and may result in Luton not getting its fair share of funding.
- **Adult & Children's social care funding**. The announcement of an additional £1.3 billion of grant funding for local authority services. This was revised in the Policy Statement as discussed below.
- **Disabled Facilities Grant (DFG).** The Chancellor announced an £86 million increase to DSG to support.
- **Business rates.** 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. 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.
- **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. The government will provide funds to cover the cost of this to local authorities, with £515m to be distributed to local authorities in England. Individual allocations will not be released until the Final

Settlement is published. The reimbursement will only cover directly employed staff with the increased of contracted out services falling to the Council to fund. The government has issued guidance on how it intends to calculate allocations of this funding. The guidance is open to a range of interpretations with potential allocations for Luton varying between £2.076m (included in the draft budget) and £1.369m. Given this uncertainty, the Council has had to set aside a contingency to cover this as part of the 2025/26 budget. The adequacy of the support provided to Luton will be reviewed in the light of the final LGFS and the final budget will be adjusted accordingly.

- **Extended Producer Responsibility** Local authorities are expected to 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. For Luton the one-off allocation is £3.1m for 2025/26 only and has been included in the Revenue budget. £1.45m of the funding allocation (£3.1m) has been included in the base Revenue budget and the balance has been set aside to improve recycling outcome and shortfall in 2024/25 income in Inclusive Economy. The impact of the reversal of this one-off funding has been included in the 2026/27 MTFP.
- **Social Housing** The Autumn 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, with the delivery 1.5 million homes over the current Parliamentary Term.
- **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. This has been taken into account as part of the HRA.
- **Household Support Fund and Discretionary Housing Payment** The government is providing £1 billion to extend both the Household Support Fund in England and Discretionary Housing Payments in England and Wales in 2025-26.
- **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. Luton receives an additional £1.5m of Homelessness Prevention Grant and an additional £0.9m of grants targeted at homelessness and rough sleeping. These grant have been included in the budget to cover growth in the temporary accommodation and budget pressures caused by rough sleeping.
- Social Housing Rent Settlement Subject to consultation, the proposal is for a new long-term social housing rent settlement of CPI+1% for 5 years. This has been built in the HRA.
- **Local Housing Allowance Rates**. The LHA rates are to be frozen from 2025/26 which would result in further loss as the gap between market rents and LHA rates widened.
- **Planning Skills and Capacity** The government will provide £46 million of additional funding to increase staffing and improve efficiency in planning. Local Government Finance Settlement 2025/26 – Policy Statement

7. The Policy Statement outlined how funding will be allocated in the 2025-26 settlement. Actual funding allocations were announced on the 19th December in the provisional settlement. . It is clear the government has targeted the additional funding on the most-deprived local authorities, as well as on those authorities with social care responsibilities. Luton is one of the Councils who have benefited from this.

8. Core Spending Power (CSP) will increase by 3.2% in real terms. Some of the existing grants within the settlement will be abolished (Rural Services Delivery Grant, Services Grant), and other reduced in value (Minimum Funding Guarantee), in order to provide additional funding for adults' and children's social care. The net increase in "new grant funding" will still be around £1.3bn – but the increase in the new grants will be £1.730bn (Recovery Grant £600m, Social Care Grant £880m, Children's Services Preventative Grant £250m). The balance funded through the abolition of Rural Services Grant and Service Grant.

Key headlines from Policy Statement and Provisional LGFS:

- **Targeted deprivation fund ("Recovery Grant")**. £700m was announced in the 2024 Autumn Budget, and this has now been reduced to £600m. The grant will be highly targeted towards authorities with the highest levels of deprivation and will "go to places where, weighted by population, deprivation outweighs council tax raising ability". Luton is set to receive £6.3m.
- **Social Care Grant**. The government is to distribute £880m of additional social care grants, a £200m increase on the £680m announced in the policy Statement. Luton's allocation increases by £2.9m. A further £250m has also been announced for a Children's Social Care Preventative Grant. Luton's allocation is £1.2m.
- **Settlement Funding Assessment (SFA)** will be indexed in the usual way. Revenue Support Grant will increase in line with the Consumer Price Index (CPI) (1.7%), and the Baseline Funding Level (BFL) will be uplifted in line with the increase in the standard business rates multiplier. Under-indexing (of the small business rates multiplier) will be funded through the cap compensation grants.
- **Council Tax Band D thresholds.** Thresholds confirmed as 2.99% core increase, 2% ASC Precept.
- **Services Grant.** This grant will be abolished in 2025-26 – Luton allocation in 2024/25 was £310K.
- **New Homes Bonus (NHB).** NHB will be continued into 2025-26 but abolished in 2026-27. Luton receives £0.3m.
- Various grants will be rolled into RSG in 2025-26.

9. The statement confirmed that there will be a full package of funding reforms in 2026-27, and that this will be the start of a multi-year settlement. The funding reforms will build on "the previous government's" Fair Funding Review, and there will also be a full baseline reset for business rates. The statement was careful to note that they "will move gradually towards an updated system" and will consult on "possible transitional arrangements". The statement began the process of redirecting as much funding as possible to the places that need it most.

10. Additional income of £1.1bn from the **Extended Producer Responsibility for packaging (EPR)** will be received by local authorities in 2025-26 as explained in the paragraph above.

11. Funding for local authorities for the increase in **employers' National Insurance Contributions (ENICS)** will be announced alongside the final settlement. Funding will only be for the <u>direct</u> costs affecting local authorities (i.e. not for third-party ENICS costs). The exact gap in funding is not yet know and £1m has been set aside to deal with any eventualities.

12. The **flexible use of capital receipts** will be extended until 2030. Authorities will also be able to capitalise redundancy costs. Luton is not planning to make use of this flexibility in this budget.

Local government funding reforms

13. It is expected that the reforms will include a Fair Funding Review (FFR) (change in "needs" assessment), a baseline reset, and changes to other grants, including New Homes Bonus (NHB) and a new Adult Relative Needs Formula (RNF). Decisions within the proposed changes will be different from those that were in the previous government's consultation papers and working papers (2018 and 2019). The direction of travel is likely to change with an emphasis on allocating additional funds to authorities such as Luton with high levels of need and deprivation and low Council tax bases.

14. A new "needs" assessment will have to include the latest Census 2021 (in some form), and may use a new Adult RNF, which is already available. Council tax equalisation needs to be updated, and the business rates baseline will have to be reset. It is normal practice, when making substantial reforms to the methodology for distributing local government funding, for the government to put in place transitional arrangements. These cushion the immediate impact on authorities that lose funding, by redistributing some of the funds which would otherwise have gone to authorities gaining funding. It is therefore possible, if not likely, that the Council as a high need/high deprivation authority with limited council tax raising powers will gain substantially on any new distribution formula, but the full additional amount will not be payable immediately due to caps imposed under the transitional arrangements.

15. The government will not be making these changes in 2025/26. Whilst multi-year financial settlements from 2026/27 are welcome, the uncertainty over the outcome of the funding reforms makes long-term budget planning very difficult. There is considerable frustration that Luton has not been properly funded for a number of years and the sooner there is some certainty about the funding reforms the better.

Local context – challenging environment

16. The Council continues to drive its town-wide 2040 vision that was launched in October 2020, and the proposed budget is key to its ongoing development and delivery. The vision sets an ambitious blueprint for the future of Luton to be a healthy, fair and sustainable town where everyone can thrive and no-one has to live in poverty. The Corporate Plan builds on the successes of Luton over the last few years and tackles poverty in Luton so that everyone can benefit from future growth in the town. The capital programme includes significant regeneration projects in particular The Stage project, having been awarded part-funding from the levelling-up fund.

17. The ongoing cost of living crisis continues to impact Luton. The Council's Luton 2040 Progress Report highlights that destitution in our town has dropped from 12.1% to 9.9% of households in Luton, a positive change in circumstances for almost 5,000 of our residents and a continued downward trend since the pandemic. Tackling poverty continues to sit at the heart of our vision for Luton and the budget focuses on protecting the most disadvantaged as well as our ongoing work towards skills and qualifications for the town's residents.

18. This report sets out our budget priorities linked to the vision, corporate priorities and target outcomes as we lay out our Roadmap towards our long term ambitions by 2040.

19. For 2025/26 the key uncertainties are national cost pressures and increasing demand for services as a result of the Cost of Living, Care and Housing Crises, have a major impact on the Council. Locally, the decision by Vauxhall-owner Stellantis to close its commercial vehicle plant in Luton putting 1,100 jobs at risk puts additional pressure on the local economy and could have an adverse effect on the Council's income from business rates. The key risks to sustainability centre on delivery of Deficit Recovery Plans and savings from the Council's Transformation Programme.

20. The budget is based on the Council receiving no dividend from LLAL (trading as Luton Rising) in 2025/26. Although LLAL has recovered better than expected from the pandemic, the impact of the challenging economic environment continues to affect the aviation industry and the risk of a potential reduction in revenue from Luton Rising remains one of the major budget challenges facing the Council. This is highlighted elsewhere in this report. The LLAL business plan is forecasting a gradual increase in passenger numbers. If approved, the application for a Development Consent Order, on which the Secretary of State will make a decision in April 2025, will lead to a substantial increase in passenger numbers.

21. The 2025/26 budget includes substantial growth in adult social care spending, reflecting demand and cost pressures, which are in part addressed by additional social care grants and use of the proposed 2% Adult Social Care precept.

22. This budget should be seen in the context of the Council having had to make savings of £175 million since 2010, while facing severe demand-led spend pressures in services for the vulnerable, such as children's and adult social care services, homelessness and reduction in commercial income from investment properties. So far, the Council has taken a sensible and measured approach by maximising the delivery of extensive efficiency savings and at the same time endeavouring to protect vital services and ensuring resources are allocated to the Council's priorities. In 2025/26 the council faces a substantial deficit from 2024/25 together with on-going demand pressures for social care and homelessness.

23. The 2025/26 budget is based on a proposed Council tax increase in Luton's share of the tax of 2.99%, together with a 2% adult social care precept in line with the government's referendum limits. If approved, these tax increases, totalling 4.99% in Luton's share of the tax, will help to minimise as far as possible the level of reductions in key services and jobs that would otherwise be required. This is not an inconsequential rise and the Council has a council tax support scheme which is a good scheme when compared with other statistical neighbours together with the hardship fund to provide some support to those in need.

24. The major changes in the proposed budget compared with the budget for 2025/26 are as follows.

- Unavoidable additional expenditure of £4.945 due to inflation. Of this £4.707m is contractual and £0.238m non contractual and departments will endeavour to manage the increase in costs resulting from inflation
- Departmental growth of £7.834m, primarily due to new statutory responsibilities and unrelenting demand pressures on key services
- Significant additional Growth to deal with the 2024/25 deficit in core services of £11.645m – budgets have been realigned in 2025/26.
- Increase in employee budgets of £5.704m to cover the cost of increments and an assumed Pay Award of 3% (4% including on costs). Additional National Insurance costs of £3.045m are assumed to be partly (£2.076) funded by government grant.
- A net increase in non-ring-fenced Corporate Grants (section 31) of £0.529m to compensate loss of grant resulting from government initiatives.
- Increase in Service Specific Grants of £12.9m, including new recovery and extended producer responsibility grants and additional social care funding.
- An estimated increase of £7.304m in council tax income, due to an increase in the council tax base and the ability to increase to 5% prior to a referendum (LBC proposed increase: 2.99% for Core Services, 2% for Adult Social Care Precept).
- One-off use of prior year Collection Fund Surplus of £0.479m arising from both council tax and business rates.
- Capital bids - £60.2m mainly for the acquisition of residential properties and The Stage project. Full details in Annex1.

Key messages and considerations

25. The proposed budget is based on increasing the Council tax and adult social care precept to the maximum allowed without a referendum. It should be noted that this is in line with what government is expecting councils to do.

26. The proposed budget contains substantial additional resources for adults and children’s social care, SEND transport, supported living and homelessness. It also includes a detailed transformation and deficit recovery plan to address in the main the 2024/25 deficit to ensure the budget is both affordable and sustainable. Whilst rising demand in these areas is a national problem which the government has sought to address through additional grants in the 2025/26 LGFS, the trajectory of rising expenditure in these areas at Luton is unsustainable without levels of additional government support which cannot reasonably be expected. In the medium to long term action is required to manage the cost and demand pressures down to levels that are affordable and sustainable.

27. The 2025/26 LGFS provides a real terms increase in resources intended to address costs pressures in social care and homelessness. However, even with this additional funding, the magnitude of the budget gap caused by pressures in these areas has necessitated the use of one-off Collection Fund surplus to balance the budget. The government has made clear that future years' Local Government Finance Settlements are likely to be less generous, potentially not even keeping up with inflationary pressures. Urgent action is therefore required to reduce these budget pressures in 2026/27 and beyond.

28. The level of budget deficit recovery and transformation savings required this year at £10.7m is exceptionally high (more than twice last year's £5.3m) and may prove to be a real challenge and would require close monitoring, reporting and corrective measures to address any non-delivery. The Council has a track record of delivering savings over the years.

29. The capital programme is significant, with a number of new schemes proposed, and the longer-term impact of the rising costs of interest payments (interest rates staying relatively higher for longer) and minimum revenue provision (MRP) as well as scheme-specific risks, including overspends, do need to be taken into account prior to the approval of individual schemes. Existing and New schemes are subject to business case approval and financing options before they can proceed, and it is vital that these are rigorously assessed (gateway review process at each phase) to ensure that the schemes and the levels of expenditure are right for Luton in both the short and long-term, and that the Council is best-placed to own and manage the schemes, before they are approved.

30. The revenue costs of the capital programme that are included in the budget and medium term financial plan do not cover any debt servicing costs, MRP or running costs of the proposals for major regeneration schemes. Such schemes require significant inputs of sector-specific expertise to assess and ensure viability, and a fundamental check of that viability is whether or not sector experts are prepared to make the financial commitment themselves, with the Council in an enabling rather than financing role. These schemes will only proceed if they are deemed to be viable, affordable, sustainable and deliverable and funding secured from external organisation with no financial impact on the Council's revenue budget.

31. Following extensive consultation, the government published revised regulations covering the minimum revenue provision (MRP). The Key changes included:

- Clarification on the use of capital receipts: Local authorities are prohibited from using proceeds from asset sales to replace the revenue charge for MRP.
- Inclusion of all debt in MRP calculations: Authorities must include all debt, including that associated with investment assets, in their MRP determinations.
- Treatment of capital loans: Provisions were made to allow certain capital loans to be exempt from MRP, provided specific conditions are met.
- These amendments are scheduled to take effect from April 1, 2025. However, requirements related to charging MRP concerning expected credit losses and impairments will apply to new capital loans issued by local authorities from May 7, 2024.

32. The Council has reviewed its MRP policy to comply with the new regulations. The MRP policy is set out in Appendix P.

33. Luton currently has approved loans of up to £507m to Luton Rising, and does not make a charge to revenue for those loans, on the basis that they are repayable in full when the concession is re-let, and the potential value of the upfront payment is reviewed each year to ensure that it remains sufficient to enable full repayment. This is in accordance with standard private sector accounting practice and current guidance. MRP rules however are entirely dependent on government regulation. The new regulations allow flexibility to Council and any provision has to be based on proper accounting principles and prudence. Once the final regulations are enacted, officers will make regular assessment of the risk to the loans and make any necessary MRP provisions as appropriate. Based on our initial assessment, it is our view that no additional provision is required at this moment. Luton also has an approved loan facility to Foxhall Homes Ltd of £44m and does not make a charge to revenue on the basis they are repayable in full in 2054 as set out in the Loan Facility Agreement. Impairment Assessments are undertaken to check the loans advanced are covered by the value of the associated assets which they financed

34. The 2025/26 spending review is based on a one-year settlement, with consultation proposed with the local government sector on how funding will be allocated for future years. It will be essential that the Council contributes actively to the debate on future allocations and expert local government finance resources will be required in order to do so effectively. It is worth noting that the settlement does not take into account the ongoing and increasing pressures related to achieving net zero, which are likely to be significant factor in both capital and revenue spending for the future.

35. Long-term financial stabilisation of Luton Rising remains crucial to the Council's financial health, even though the financial strategy is now based on no contribution from any future dividend to fund the revenue budget. Interest on loan repayments and property rental income are still highly significant, and the development of the next concession contract is absolutely fundamental for the Council's Luton 2040 and future plans. It is vital that the Council continues to assess and stress test Luton Rising's financial position and prospects, and continues to maintain appropriate reserves to help mitigate the risk of any further adverse impacts on the company. The revised dividend policy allows the creation of sufficient reserves by LR before the company is in a position to declare dividend. In the event LLAL decides to declare an interim dividend during 2025/26, Executive has to consider the options for the application of the additional funds.

36. The formal recommendations of the CIPFA report into the Council focused on the monitoring and effective delivery of savings and the development of further savings opportunities, particularly by commissioning an independent review of the Council's property estate covering rationalisation opportunities which is under way, as well as the strengthening of the governance of Luton Rising which has been progressed. The Council's response, while wholly positive, does point out that this largely reflects what has already been happening in the last year. The removal of service specific contingencies to mitigate against any savings programme from prior year's and this budget is in line with the CIPFA recommendations.

Goals & Objectives

37. The key goals and objectives are:

1. To set a balanced and sustainable budget that prioritises our Luton 2040 ambitions for 2025/26 in line with the legal requirement to do so.
2. To ensure the financial challenge posed by the economic uncertainty, the Cost of Living Crisis and rising cost and demand pressures on key services is assessed and measures put in place to ensure the financial resilience of the Council and its subsidiary companies, which form an integral part of the Council.
3. To set a fully resourced, prudent, affordable and sustainable capital programme for 2025 to 2030 in accordance with the requirements of the Council's standing orders and best practice.
4. To set a budget risk management strategy that will enable the budget to be managed effectively and ensure a prudent level of reserves is maintained.
5. To ensure that there is a robust and deliverable transformation and deficit recovery plans.
6. To set a medium term financial plan, together with a long-term financial strategy, capital and borrowing strategies, that will enable the Council to work effectively in the medium term towards meeting its service aspirations as set out in the prospectus within the level of resources available to it.
7. To ensure that services can demonstrate value for money under best value principles.
8. Ensure delivery against the Luton 2040 vision and our Corporate Plan to secure a strong economic recovery and aim to protect our most disadvantaged residents.
9. Delivery of Deficit Recovery Plans and Transformation Programme Savings with robust project management to enable scrutiny, challenge and accountability

38. The S151 officer is required to provide advice to Council regarding the adequacy of reserves and robustness of the estimates and also to provide regular updates on the delivery of a balanced budget. The assurance provided at the budget setting time did point out about risks and uncertainties and as mentioned in paragraph 48 the economic climate has proved to be very challenging with persistently high interest rates and rising demand coupled with significant cost pressures. However, the Council is required to deliver a balanced budget and also have an affordable and sustainable medium term financial plan which is part of the best value duty of the Council.

39. The Council has a track record of delivering a balanced budget over many years and this continued in recent years. The updated position at the 2024/25 Quarter 2 (Q2) monitoring forecasts a core net deficit of £13.3m. The Council has delivered part of the savings included in the 2024/25 budget. However, increased demand for Council services, non-delivery of some savings targets, cost pressures and income budgets not being met due to the state of the economy and cost of living crisis has resulted in an increase in the level of core deficit. Whilst the general economic environment is improving slowly, demand and cost pressures on social care and homelessness shows no sign of relenting.

40. The table below shows the deficit recovery plan as approved by Full Council and the forecast planned/delivered amount reported as part of the Q2 monitoring. As part of the preparation for this budget previous savings targets deemed not deliverable within the timeframe have been refreshed and a revised savings target has been set as part of the revised transformation and deficit recovery plan. In addition, Service Directors have updated their deficit recovery plans to address the £13.3m underlying pressures reported in the Q2 Monitor. Delivery of these revised Savings Targets and Deficit Recovery Plans are critical to the ongoing financial sustainability of the Council's future budget position and robustness of the budget.

Deficit Recovery Savings required in 2024/25	**Approved** Deficit expected to be delivered in 2024/25	**Forecast** Deficit planned/delivered at Q2 2024/25	**Comments**
	£000	£000	
Chief Executive's	506	1,091	1. Supported Accomodation - Work is being carried out to assess the robustness of costs claimed by providers and effective discussions with providers with the aim to ensure best value. 2. Enforcement and summons income have improved.
Children Families & Education	1,625	1,119	Children's placement DRP is showing a cost reduction of £1.1m being achieved on various projects.
Inclusive Economy	1,170	353	1. Rent reviews for Council's retail units and receipt of backdated rent have resulted in additional income. 2. Sustained income from placement of cones and residents permit likely to make an improved contribution towards the DRP savings. 3. Fees and Charges review across the services with an expected increase in charges in the new year will add to the improved income.
Population Wellbeing	1,956	2,250	1. Use of expensive B &B and nightly paid accommodation have resulted in significant overspend in Homelessness. Considerable resources have been invested in that area to achieve planned DRP savings of £900k. 2. ASC Purchased care model is showing a cost reduction of £1.35m being achieved under various projects.
Total	**5,257**	**4,813**	

41. The deficit recovery plans as shown in the table below and the transformation programme will be managed as part of the overall Council transformation programme. This has to be managed closely in order to ensure that the long term and medium term financial plan is affordable and sustainable.

Transformation programme

42. The Council's Transformation Programme is underpinned by our 2040 vision of creating a modern and innovative Council, providing high-quality, efficient services that meet the needs of residents and delivers on the vision for Luton. The programme needs to go beyond a savings programme, instead transforming the organisation to be 'future ready. The Luton 2040 vision is at the heart of the programme; the Transformation Themes, under which transformation projects will be managed all contribute to the 2040 priorities.

43. The programme is a 3 year programme that started in summer 2023 with a discovery exercise and then a prioritised set of opportunities moved into the development phase where high level strategic business cases were developed. These were approved by Executive late June 2024 and a number of these projects moved into delivery in August/September with the aim of delivering both financial and non-financial benefits. These include:

- Procurement and 3rd party spend that is seeking to deliver savings and improved value from the money we spend with our contractors
- Income generation that is maximising the Council's income and trading opportunities

- Resident experience that is working to improve the way residents access services and information whilst also delivering savings through redesigning processes, improving the digital offer, consolidating contact teams and having clearer, simpler ways to get support. A sub project is also reviewing the Council's out of hours arrangements.
- Neighbourhoods is seeking to bring together all the activity that is happening in neighbourhoods and community settings with the aim of reducing duplication, maximising our property assets and working more closely with the community and voluntary sector.
- Homelessness and Temporary accommodation is redesigning how the council and its partners can intervene early to prevent homelessness, improve access to advice and support, reduce the number of households in expensive nightly paid temporary accommodation and ensure more families and vulnerable adults can find a sustainable home.
- Cost and demand is working to understand the causes of increasing costs in critical services such as adults and children's social care with the aim of supporting early intervention and prevention activity to reduce crisis and high cost interventions. This work will support the deficit recovery plans in these services.
- Passenger transport is reviewing the Council's approach to transport for children with SEND and adult social care users to ensure efficiency, value for money and encouraging greater independence.

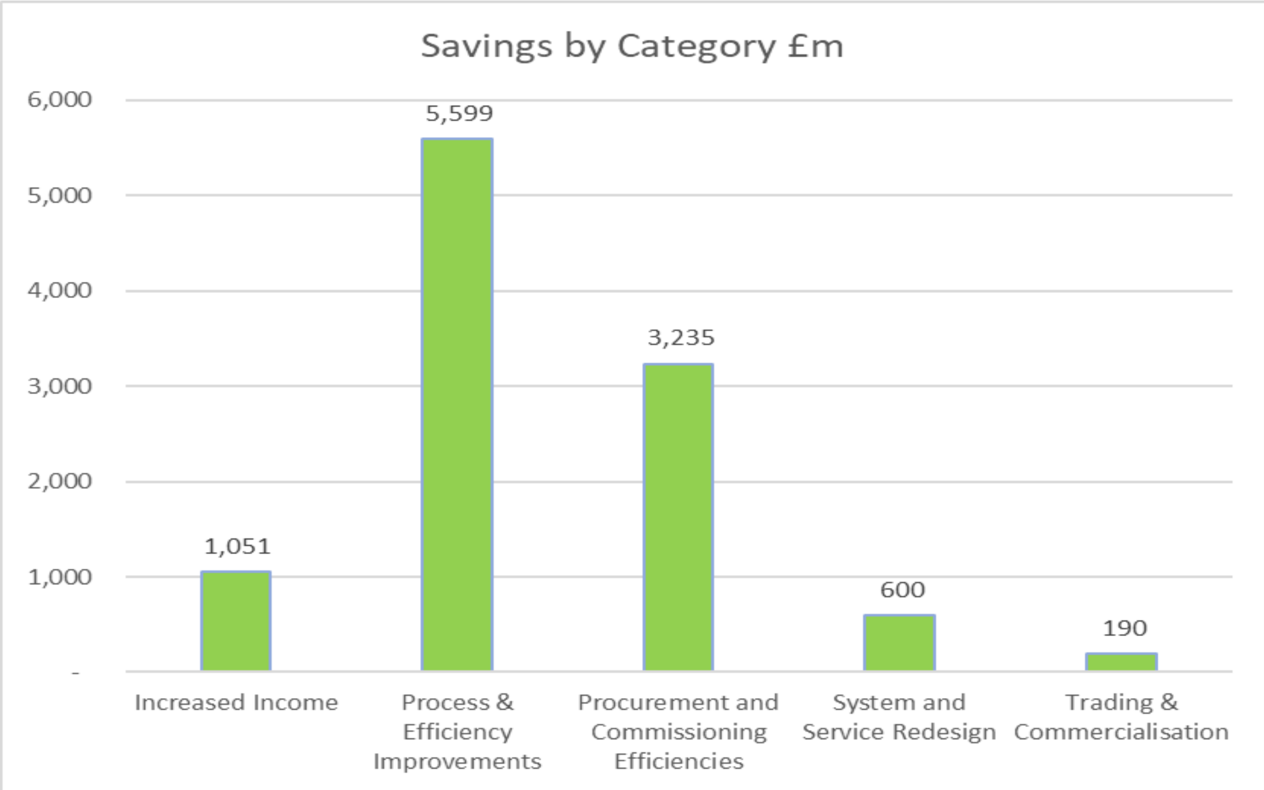
44. So far, the projects are working to deliver £4.1m of budget savings over 2025/26 and 2026/7, and a further £1.4m of DRP savings. The timing and deliverability of these savings have been reviewed in calculating the value for inclusion in the 2025/26 budget. The next phase of projects is also being developed and these include strategic commissioning across the council, business support, support services, BTS, Adult Social Care financial assessment, debt and income collection.

45. A prudent approach has been taken in assessing the value of savings to be included in the budget for 2025/26 as a number of projects and individual savings are currently rated amber as a result of the savings only being delivered in part during 2025/26 and the balance in 2026/27 and therefore only £1.2m of savings has been included in the 2025/26 budget. Costs associated with the programme are being carefully monitored to ensure appropriate return on investment and over the course of 2024/25, resources are being increasingly migrated to Luton Council roles and this will continue into 2025/26.

46. The Council has set aside £3.74m as a one-off reserves to fund the transformation programme which has to be supported by robust business cases with clear benefits realisation plans taking into account any deliverability risks. Based on an initial assessment, the average 'Return on Investment' for each of the projects currently in delivery using the assessed current level of savings and Actual / Committed expenditure (£1.2m) to October 2024 is 1 : 1. This is below the ratio agreed by Executive of 1:4. As the 'Whole Life Cost' of delivering each of the projects has yet to be identified and savings not yet fully quantified, these savings ratios are based on the information available to date and are expected to improve as delivery progresses.

47. Savings will need to be delivered in 2025/26 and beyond to enable the Invest to Save reserve to be replenished and to help ensure that the Council can set a balanced budget going forward.

Savings from Transformation Programme



Key Budget Risks

48. Section 25 of the Local Government Act 2003 requires myself as S151 officer to report on the adequacy of reserves and the robustness of estimates (Appendix 2). The paragraph below lists the main risks based on best practice and the information available to date and in view of significant uncertainties due to the economic climate. There is a separate appendix – Appendix B – setting out a detailed Budget Risk Management Strategy. The major risks relate to:

- Delivery of revised Deficit Recovery Plans and savings from the Transformation Programme. These are critical to the Council's ability to set a balanced and sustainable budget over the medium to long term.
- Achieving 96.5% Collection Rate for Council Tax. For many residents their capacity to pay in full and on time is compromised in the short term by the Cost of Living Crisis.
- Not achieving the prior years' savings as per appendix M including those as part of the deficit recovery plan and the savings as part of the transformation projects.
- Reductions in the collection rate for Council tax and Business Rates, increases in bad debt levels and losses as a result of appeals against rateable values especially appeals resulting from slower growth in value of properties in certain categories such as retail and commercial.
- Future changes to the Business Rates Retention Scheme as part of the Fair Funding Review, Business Rates reset and Needs Analysis may have significant adverse financial implications. The recent revaluation has been effective as from 1 April 2023 and has been factored as part of this budget. This is a future risk after 2025/26.
- Increases in demand for high-cost Adult Social Care, Children's services and Homelessness. These services are demand-led and largely driven by demographic changes.
- Overspends occurring in the capital as well as the revenue budget and estimated capital receipts already relatively low not being realised. This includes projects undertaken by subsidiary companies which may require additional loan from the Council.
- Uncertainty over the redistribution of abolished grants: Services Grant (last year 204/25) and New Homes Bonus (last year 2025/26)..
- Potential revenue impact of major capital scheme proposals and also the major regeneration projects which would require detailed and robust full business case.
- Main contractors appointed to deliver major Capital Projects falling into administration – leading to additional, unbudgeted costs and delay in service delivery.
- Robust Integrated Impact Assessments are completed and consulted on prior to implementation of savings to mitigate a risk of challenge of specific budget items
- Adequate Funding of the Schools High Needs Block and the deficit currently subject to a statutory dispensation.

- Further overspend on the benefits subsidy claim as a result of more properties being assessed as exempt accommodation. This is currently being reviewed and discussions taking place with providers to ensure schemes delivers value for money, budget is sustainable, vulnerable residents are protected and a resilient providers market is maintained.
- Managing the Council's Investment Property Portfolio to ensure returns from it meet expectations. Further reduction in commercial income due to voids. Officers have carried out a detailed assessment of the Council's portfolio of commercial properties and the results have been considered by officers and an action plan to optimise the return on investment form the portfolio is being implemented.
- The continued development of procurement & commissioning and progressing the plans to deliver the savings required for future Budgets.
- Successful Delivery of the transformation and deficit delivery programme.
- Successfully embedding the ICT service which has been brought in-house.
- The Central Schools Budget has been balanced by utilising circa. £0.95m from DSG Reserves which means that the Education Team will be working on how to sustain this deficit over future years.
- Risk to the ongoing adequacy of reserves resulting from the need to use general reserves to set a balanced budget in 2025/26.

Proposal/Options

49. The proposal is to set:

i) A revenue budget incorporating the savings as part of the Deficit Recovery Plan (Appendix M) and spend pressures (Appendix L), together with a specific proposal for the level of Council tax;

ii) A medium term financial plan and strategy as set out in Appendix A.

iii) A capital programme as set out in Appendix H on the basis of the resource statement set out in Appendix G;

50. In order to manage this effectively, the implementation of the Budget Risk Management Strategy set out in Appendix B will be essential.

Luton 2040 Contribution

51. The budget is an integral part of the delivery of the 2040 vision as it prioritises scarce resources towards the delivery of the Council's prioritise and ensures that both the revenue and capital budgets are properly aligned in order to assess the whole life costs of projects. It also helps management to plan, monitor, and report and take corrective measures to ensure the Council's goals and priorities are delivered.

Stakeholder and Public Engagement

52. A town-wide engagement exercise took place during October and November 2024 in which members of the council's Executive hosted stalls in high footfall areas of the town to speak to residents about the council's 2040 vision, the budget and service delivery.

53. Members had hundreds of conversations with the public where they were able to talk about the current budget challenge and shortfall, listen to concerns, take on board feedback, provide clarity and answer questions.

54. The key messages communicated to residents included:

a. the financial challenges caused by reduced government grant, inflation/rising costs and the rising demand for services,
b. how the council required by law to set a balanced budget
c. the level savings needing to be found in 2025/26 and beyond

55. Members also asked residents where they would like the council to prioritise its spending in the context of the current budget challenge and funding shortfall.

56. The events additionally provided an opportunity to signpost people to local services and answer other concerns they had.

57. Everyone who visited the stands were offered the opportunity to complete a short survey on where the council should prioritise its spending. The survey was also made available online and promoted so those that didn't attend the events could still provide their views. The survey has only just closed at the time of writing so the analysis is still to be worked through and a report will be included in the final budget papers to help inform decision making.

58. The main themes of the conversations and survey responses related to safety, cleanliness and improving the town centre as the issues most important to residents and where they would like spend prioritised.

59. Residents were also asked for their ideas on where the council could make savings. As mentioned above, the analysis is underway and a full report will be included in the final budget papers, but a number of ideas were put forward including more enforcement, collecting unpaid tax, reducing spend on wages, focussing more on core services and introducing zero-based budgeting techniques.

60. Residents at the events generally left with a better understanding of the council's financial challenge than when they arrived.

61. Finance Review Group (FRG) – the 2025/26 budget will be considered by FRG on 23 January 2025.

Legal	Clearance Agreed By	Dated
The Executive is required to recommend a budget to Full Council for approval and Full Council is required to approve a budget and set a level of Council tax for 2025/26 . The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council. The provisions of section 25, Local Government Act 2003 require that, when the Council is	Samantha McKeeman Principal Solicitor	23 December 2024.

making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. The budget must be prepared in accordance with the statutory and other regulations and requirements, there are no other legal implications.		

Finance	**Clearance Agreed By**	**Dated**
These are addressed in the body of the report.	Dev Gopal, Director (Finance, Revenues & Benefits)	31/12/24

Integrated Impact Assessment (IIA) – Key Points		
Equalities / Cohesion / Inclusion (Social Justice)	**Clearance Agreed By**	**Dated**
The report includes initial consideration of the range and scope of savings proposals. There is no evidence currently available at this stage to suggest that the proposed savings will have impacts, either positive or negative, on any of the protected groups of the Equality Act (2010). However, IIA analysis will be undertaken as required and appropriate for specific proposals as part of and prior to any final decisions being made on options, recommendations and implementation. Any significant negative impacts will be reported to members as part of the reporting process, in accord with the Council's duty under the Equality Act 2010, including whatever mitigations may be needed or be possible to achieve for those already at a disadvantage because of disability, race, sex, age or any other relevant protected characteristic.	Marek Lubelski, Head of Social Justice and Community Safety	23/12/24

Environment	**Clearance Agreed By**	**Dated**
There are no direct impacts of approving this budget by Council. However in setting the level of resources available, indirectly there are a number of areas of capital and revenue that could contribute to reduce CO2 / improve air quality and encourage sustainable travel.	Shaun Askins Service Manager Strategy & Sustainability	23/12/24
Health	**Clearance Agreed By**	**Dated**
The budget approves the funding for public health services in 2025/26 , together with other budgets in all departments that will need to be used in a cohesive fashion to impact positively on public health in the town.	Nicola Ainsworth, Public Health Consultant	23.12.24
Community Safety	**Clearance Agreed By**	**Dated**
The budget ultimately approved by Council will set the level of resources available for Community Safety.		
Staffing	**Clearance Agreed By**	**Dated**
The budget ultimately approved by Council will set the level of resources available for paying employees. The base budget makes provision for staffing at currently approved levels. There are additional posts in the spend pressure proposals and service improvements. There are 7.8 FTE reductions currently indicated in the savings proposals for 2025/26, and there are 11 FTE posts vacant. Provision is also made in the base budget for the impact of vacancies arising from staff turnover during the year, and it is assumed that staff advertising costs will be paid for by holding posts vacant. The Council has an active redeployment policy as a key part of its organisational development and this will be used to try to minimise the number actually made redundant.		

Luton

Annex 1 and Appendices

Annex 1	Further detailed analysis to the Revenue Budget Report.
Appendix A	Medium Term Financial Plan
Appendix B1 and B2	Risk Management Strategy & Contingency Provision
Appendix C	Financial Strategy
Appendix D	Government Grant
Appendix E1 and E2	Council tax Comparisons – 2024/25 Levels
Appendix F	Protocol for the Management Control & Use of Reserves
Appendix G	Capital Resource Assessment
Appendix H (included in Green Book pages 27 to 44)	Capital Programme 2025/29 (included in Green Book)
Appendix I	Analysis of Variance between 2025/26 Net Expenditure Prior to Growth & Savings and the 2024/25 Budget
Appendix J	Schools Funding Formula 2025/26 for Primary & Secondary Schools
Appendix L (included in Green Book page 22-23)	Growth Items – Unavoidable Increases in Cost (included in Green Book)
Appendix M (included in Green Book page 24-25)	Recommended Savings 2025/26 (included in Green Book)
Appendix N (included in Green Book page 2)	Final Revenue Budget Summary.
Appendix P	MRP Policy 2025/26.
Appendix Q	Investment Strategy 2025/26 (to follow)

List of Background Papers - Local Government Act 1972, Section 100D

- The detail of the consultation that informed the Council's 2040 Vision and its budget strategy to 2025/26 are available from the consultation team, 01582 547099.
- The detail of the grant settlement is available from the MHCLG website

Background

1. This document sets out the revenue and capital budget and the Council tax for the 2025/26 financial year and the medium term financial plan.

2. The provisional settlement is for a single year only, with the government intending to implement multi-year settlements from 2026/27, after a review of the methodology for allocating funding to local government

3. The Local Government Finance Policy Statement set out the government's intention to target the additional funding on the most-deprived local authorities, as well as on those authorities with social care responsibilities.

4. The government plans to implement the Fair Funding Review and with a business rates baseline reset in 2026-27 as a prelude to multi-year local government finance settlement.

5. For English local government as a whole, core spending power is expected to increase by 6% in cash terms for 2025/26. This is based on the assumption that local authorities increase Council tax, including the adult social care precept, by the maximum allowed i.e. 5%. The increase for LBC is 8.8% and does not take into account the already low tax base and that most Luton properties are in B and A to C. This is further explained in paragraph 30 of Annex 1.

6. It should be noted that there is expected to be no real terms increase proposed in the Public Health grant, despite the service's key importance for local communities, local government and the NHS.

7. The current financial system rewards those Councils who are able to increase their business rates income and has the effect of penalising those who are unable to do so. Business development is therefore one of the key principles to the Council's future financial health and is encapsulated in the 2040 Inclusive Economy priorities.

8. In previous years it was noted that the Council received a double-benefit from business development at London Luton Airport. In addition to any business rates increase there, its wholly-owned Airport Company, Luton Rising (the freehold owner of the land on which the airport operates) receives concession-fee income on a per passenger throughput basis.

9. The growth in business rates linked with the airport and the Enterprise Zone is particularly important in the medium term as the scope for business development elsewhere in Luton is much more limited than in most Councils. This is because Luton is a very intensively-developed area already, and has a significant need for additional housing, with all the necessary infrastructure and cost associated with that, such as additional school provision and refuse collection.

10. In November, Stellantis, the Company who owns Vauxhall, announced plans to close its Luton Plant and relocate production of vans to its Ellesmere Port factory in Chesire. If these plans materialise, it will have a significant impact on the Town with the loss of 1,100 jobs and a reduction to Business Rates income.

11. At the heart of the vision for Luton is a single-unifying mission for everyone in Luton to work together to ensure that everyone can thrive and no-one has to live in poverty. The impact of poverty in Luton was highlighted by the Inclusive Growth Commission's report and our initial analysis shows that around one in three families in Luton were living below a decent standard of living at the beginning of 2020.The aftermath of COVID-19 Pandemic and cost-of-living crisis have demonstrated the scale and significance of poverty in Luton as well as laying bare many of our most stark and interconnected challenges, including health inequalities, insecure work and the quality and affordability of housing.

12. Continuing a strong economic recovery to protect jobs, incomes and businesses, as well as protecting our most disadvantaged residents is therefore an immediate priority once we overcome sluggish growth in the economy. This will enable the Council to lay the foundations to deliver on its long-term ambition for the town by 2040.In order to keep future costs to a minimum, the Council also needs to ensure there is continued focus on the delivery of Luton 2040 with a particular focus on skills development, and on ensuring people stay safe and well, physically and mentally. Our priorities focus on addressing prevailing inequalities and wider issues that impact physical and mental wellbeing with the overall aim of achieving better and more equal life expectancy for residents across our town, while tackling health inequalities and the wider determinants of health to enable everyone to reach their full potential., which we will drive through the Health and Wellbeing Board. Our refreshed vision takes a long-term, strategic and system-wide approach to preventing people from having to live in poverty by 2040. We will prioritise building a more inclusive economy that benefits all our businesses and residents as driven by our Inclusive Economy Board. Our vision also commits to long-term sustainability by transitioning to becoming a net zero town, as well as becoming a child friendly town where our children and young people have the best start in life. In addition, we will support our communities to thrive by promoting fairness, resilience and local pride. While this is a long-term vision for the town, it is also important that we continue to support our community with immediate challenges such as the cost-of-living crisis. The Council's Corporate Plan is aligned to the Luton 2040 vision and the Council is committed to working with partners across the Luton system to deliver on these shared priorities.

13. As well as enabling our residents to thrive, some of the key elements of the 2040 programme have a significant impact on Council finances. The financial importance of skills development is because if additional jobs created in Luton do not go to Luton people, the costs of the Council tax support scheme (which now falls wholly on the Council), will increase, and people will find it harder to pay their Council tax. The financial importance of physical and mental health is because the costs of care are by far the largest part of the Council's expenditure, and the more people who are able to live in safety within family or peer groupings, the greater the feeling of personal dignity and the lower the costs to the Council and Council taxpayers. This should also help to reduce the costs of homelessness and also improve the quality of life of people who are currently living in temporary accommodation.

14. To enable our residents to access high-value, well-paid jobs we will continue to work with partners through the Inclusive Economy Board to make Luton an attractive destination for employers and we will use our Employment and Skills Strategy to enable residents to access these jobs. We will also work with partners to encourage more local recruitment and to overcome barriers to employment facing residents. Over the last 12 months, we have supported 1700 residents through our community job fairs and through our adult learning training courses, we have supported and delivered 5,594 *(note: some residents attend more than one course)* enrolments, including, ESOL, Passport to Employment, Multiply and Carbon literacy. In January 2025, we will further extend our training provision when Morton House is open which will enable us to deliver more training courses for our residents.

15. Since Luton is relatively grant dependent, with a low Council tax base (the average property in Luton is valued between bands A and B for Council tax purposes, and Luton's Council tax level is below the national average), the high levels of Revenue Support Grant reduction in the decade from 2010 to 2020 have had a very significant impact on the Council. This means that the Council still needs to be prepared to make savings and increase its income on an ongoing basis, to achieve its aims towards the 2040 vision. This includes continually making the case for a fair funding settlement from central government which is now planned to take place next year and working with partners to attract more public sector funding and inward investment into Luton.

16. Our town-wide Vision for Luton 2040: Luton will be a healthy, fair and sustainable town, where everyone can thrive and no-one has to live in poverty. Our priorities for Luton 2024:

- Building an inclusive economy that delivers investment to support the growth of businesses, jobs and incomes.
- Improving population wellbeing and tackling health inequalities to enable everyone to have a good quality of life and reach their full potential.
- Becoming a child friendly town, where our children grow up happy, healthy and secure, with a voice that matters and the opportunities they need to thrive.
- Tackling the climate emergency and becoming a net zero town with sustainable growth and a healthier environment.
- Supporting a strong and empowered community, built on fairness, local pride and a powerful voice for all our residents.

17. Through the work of the Inclusive Economy Board, the Council will work to diversify Luton's economy drive greater inward investment and economic growth by supporting and growing key sectors including the green economy, digital, creative industries, manufacturing and aviation. In 2025, a new inclusive economy strategy and action plan will be launched to help drive this work forward.

18. The town centre is now a bustling hub of activity, with the establishment of a new multi-agency Town Centre Taskforce. It is focused on addressing the immediate and complex issues. In tandem, the town centre regeneration programme is making significant strides, with The Stage development now underway. Planning approval has been granted for Power Court, heralding the arrival of a new 25,000 football stadium in the heart of our town. Thanks to UKSPF funding, we have been able to implement a public realm programme, including a new public realm design guide for the town and immediate improvements in lighting, planting and public art.

19. In 2025, we will see further plans for St. George's Square and George Street come forward. The town centre work is fully supported with a place activation and comms plan to actively promote the developments happening in the town centre and a packed events programme for families to enjoy. In spring of 2025, the council with its partners will present a town centre delivery plan bringing all town centre strands of work together and supporting the continued delivery of the master plan.

20. The Council will work with partners to develop sector specific programmes for start-ups, business growth and innovation. We will work collaboratively to identify new funding and to build local partnerships between business and academia to support innovation. Over the last year, we have supported more than 200 businesses with different training programmes and other initiatives to support business growth.

General Revenue budget outturn for 2023/24 and forecast outturn for 2024/25

21. The Council has a track record of delivering a balanced budget over many years and this continued in 2023/24, with a net underspend of £4.5m prior to appropriations to Reserves. This was in spite of overspends in some Departments due to Service pressures and loss of income.

22. The updated position at the 2024/25 Quarter 2 (Q2) monitoring forecasts a net deficit of £13.3m. This is before any allocation of contingencies. The Q2 forecast included £12.6m of net overspend pressure across departments which are expected to be address as part of the Council's transformation and deficit recovery plan in 2025/26 onwards. This reflects increased demand for Council Services, non-delivery of some savings targets, the impact of inflation and income budgets not being met due to the state of the economy and the cost-of-living crisis.

23. As part of the preparation for this budget previous savings targets have been reviewed and refreshed and replaced with new savings targets of £11.1m. Further development and delivery of these revised Savings Targets and Recovery Plans is critical to the ongoing financial sustainability of the Council's future budget position.

Local Government Finance Settlement 2024/25

Core Spending Power – analysis and impact

24. Government figures in the Provisional Local Government Finance Settlement, indicate Core Spending Power (CSP) will rise by an average 6% in 2025/26 which amounts to £2bn nationally. LBC Core spending power is explained below.

25. Nationally Core Spending Power in 2025/26 consists of:

- **Settlement Funding Assessment** – consisting of Revenue Support Grant (RSG - £2.217bn nationally) and the Baseline Funding Level (BFL - £16.121bn nationally). Government propose to increase 2025/26 RSG levels in line with the CPI Index as at September 2024 (1.7%). The Small Business Rates Multiplier will be frozen for a second year but the Government will compensate Councils for the loss of income for under-indexing, up to the level of the September CPI.

This means that, taken together, the increase in BLF and the multiplier under-indexation grant for 2025/26 will provide an increase of 1.8%.

- **Income from Council Tax** - £38.3bn Nationally, assuming the tax base grows and all Local Authorities increase the Council Tax by the maximum permitted percentage.
- **New Homes Bonus** - £290m Nationally. The method of calculation has not changed from 2024/25 and the threshold over which the bonus is paid remains at 0.4 per cent. The Government say they will set out the future position of New Homes Bonus funding with the expectation that it will not continue beyond next financial year.
- **Social Care Grant** - £3.852bn Nationally. This includes £1.265bn due to delaying the rollout of Adult Social Care Charging Reforms and £161m due to rolling in the Independent Living Fund (previously paid as a separate standalone grant).
- **Better Care Fund** - £2.140bn nationally – no increase from 2022/23 levels and the distribution remains unchanged.
- **Adult Social Care Discharge Fund** - £500m Nationally. This is new funding and is required to be pooled as part of the Better Care Fund. The Government will set out details on the conditions of this new fund in due course
- **Adult Social Care Market Sustainability and Improvement Fund** - £1,050m Nationally. This includes new funding of £400m to address discharge delays, social care waiting times, low fee rates and workforce pressures. It also includes £162m in Fair Cost of Care Funding to support the progress LA's and providers have already made on fees and cost of care exercises. The Government propose to distribute this funding using the existing ASC Relative Needs Formula.

26. The overall National Average increase in Core Spending Power (CSP) of 6.5% will help Local Authorities deal with some of the inflationary and other cost pressures next year. However it does not address the underlying and existing pressures that remain as Councils still face significant challenges in setting their budgets whist trying to protect essential services. The final Finance Settlement for 2024/25 will be laid before the House of Commons for approval in late January or early February 2024.

Impact on Luton

27. The key points from the provisional local government financial settlement are set out below. The final settlement is expected in early February 2025.

28. As shown in the table below the Core Spending power for Luton has increased by 6.9% in 2024/25. However based on DLUHC analysis, since 2015-16 the CSP for Luton has increased in cash terms by £13.3m (43%) (England average 43%), as per the table that follows. This does not reflect the low tax base of the Council and the increased demand pressures and levels of deprivation.

CORE SPENDING POWER

Luton

Illustrative Core Spending Power of Local Government:	2024-25 £ millions	2025-26 £ millions
Settlement Funding Assessment	66.4	67.4
Compensation for under-indexing the business rates multiplier	10.0	10.4
Council tax requirement excluding parish precepts[1]	103.0	110.4
Local Authority Better Care Grant[2]	7.5	9.2
New Homes Bonus	0.5	0.3
New Homes Bonus returned funding	0.0	0.0
Rural Services Delivery Grant	0.0	0.0
Transition Grant	0.0	0.0
Adult Social Care Support Grant	0.0	0.0
Winter Pressures Grant[3]	0.0	0.0
Social Care Support Grant[4]	0.0	0.0
Social Care Grant	16.6	19.5
Market Sustainability and Fair Cost of Care Fund	0.0	0.0
Market Sustainability and Improvement Fund[5]	3.4	3.4
Lower Tier Services Grant	0.0	0.0
ASC Discharge Fund[2]	1.7	0.0
Funding Guarantee	0.0	0.0
Services Grant	0.3	0.0
Domestic Abuse Safe Accommodation Grant[6]	0.5	0.7
Recovery Grant[7]	0.0	6.3
Children's Social Care Prevention Grant[8]	0.0	1.2
Funding Floor	0.0	0.0
Grants rolled in[9]	0.1	0.0
Core Spending Power	**210.2**	**228.8**
Change since 2015-16 (£ millions)		83.8
Change since 2015-16 (% change)		57.8%

Baseline Funding Level (BFL) and Revenue Support Grant (RSG)

29. The policy statement has confirmed that the Baseline Funding Level (BFL) will increase in line with the inflation within the multiplier, and Revenue Support Grant (RSG) will be uprated in line with CPI (1.7%).

Council tax

30. The total increase in Council tax for the taxpayers of Luton depends upon the levels of Council tax set by the Council, the Police commissioner, and the Fire Authority, and at the time of writing those levels have not been set.

The tax base since 2020/21 is shown in the table below:

	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Tax Base	51,829	51,087	52,738	54,758	56,224	57,132
Change	1,164	-742	1,652	2,020	1,466	908

31. The increase in housing while positive in Council tax terms does result in additional service requirement across the whole Council in areas such as refuse collection, highways maintenance, school provision and social care services for example. Another factor that has affected the Council tax base positively is the continued reduction in expenditure on the Council Tax Reduction (CTR) scheme as the economy is gradually recovering. Since the roll out of Universal Credit (UC) the Council can no longer process CTR claims with Housing Benefit claims in a single application process. UC claimants now have to complete a separate application to the Council for CTR and despite having staff co-located at the job centre to remind UC claimants to make a separate CTR claim some people are still not doing this.

32. Other influences that effect the Net Tax Base in a positive way are:

A) As agreed by Executive in December 2019, the introduction of a 300% premium of Council tax on any home that has been left empty for more than ten years.

B) Increase in properties on the Valuation Office Authority list (new homes).

33. Influences that effect the Net Tax Base in a negative way are:

A) Due to the ongoing recovery of the local economy and the cost-of-living crisis, an increased council tax collection rate of 96.5% is proposed for 2025/26.

B) Universal Credit (UC) - which arrived in Luton on 24th October 2018. Nationally, where UC has been implemented collection rates have fallen by an average of 1%. In 2025/26 the cost-of-living crisis is expected to continue to have a detrimental impact.

34. The formal resolution of the Council tax for 2025/26 (including preceptor amounts), will be set as required by the Council on 24th February 2025. The following paragraphs consider the Council's share of the Council tax.

35. The government has announced that Councils able to set the Council tax at a maximum of a 2.99% general increase, plus, for those authorities with social care responsibilities, an additional 2% social care precept, without being required to hold a referendum. The Autumn Budget assumed, for its calculations of the core spending power of Councils, that all would increase their Council tax to the maximum permitted. This report is based on the assumption that members will increase the Council tax by 2.99% plus a 2% social care precept.

36. Despite the proposed Council tax increase, the Council still demonstrates significant value for money. Before any Precept from Bedfordshire Police and Fire Authorities, for a Band D Property the rise is £TBC per week and for a Band A £TBC

37. The table in Appendix E shows the average Council tax for a Band D property and also per dwelling for the authority.

Council tax Collection Fund

38. The Collection Fund is a separate fund where the costs and income of Council tax and National Non Domestic Rates (business rates) are recorded initially. This is because those costs and spend are shared between the Council and others (Council tax is shared with Police & Fire, and Business Rates are shared with Government and Fire). The Council acts as the collecting agent for each of these bodies.

39. The Council's Executive has delegated authority to the S151 Officer to determine the estimated surplus or deficit on the Council's collection fund each year (Exec/3/01). Accordingly, the Council Tax Collection Fund has an estimated deficit of £1.037m, of which Luton's proportion being £0.860m. This surplus is attributable to:

- The distribution of prior year's 'actual' surplus/deficit; and
- Collection rate lower than the level budgeted

40. The Council has reviewed the expected loss through non collection and from additional burdens on the Council Tax Reduction Scheme and adjusted the provision for bad debts to reflect this.

41. The collection fund remains volatile, in terms of Council tax. This is because it includes the impact of the Council tax reduction scheme and various exemptions. If greater numbers require support this will increase the costs in the collection fund, impacting on the Council tax base in the following year.

42. The Council has reviewed the expected loss through non-collection and from additional burdens on the Council tax reduction scheme as a result of the sluggish economic growth, but has increased the collection rate from 96% to 96.5% as the inflationary pressures have abated

43. It is advisable to continue to hold a specific earmarked reserve in order to equalise fluctuations in income from Council tax and Business Rates.

Business Rates Income estimates and Top Up

44. The Business Rates Retention Scheme introduced on 1st April 2013 continues in the short term. The challenge faced by all authorities in predicting the level of movements in the business tax base and the level of appeals remains a cause of concern. This has to also reflect the latest revaluation which will be effective as from 1 April 2024.

45. The main components of the allocation of Business Rates together with the estimates of individual elements for the Council in 2025/26 based on the latest NNDR1 are as follows:

Retained Business Rates 2025/26	£'000
Estimated Business Rates Income	71,690
Less: Fire Authority Share (1%)	717
Less: Central Government Share (50%)	35,845
Balance: Luton Share (49%)	**35,128**
Plus: Business Rates Top-up	13,531
Total Retained Business Rates	**48,659**

46. In 2025/26 the amount of business rate income to be retained by the Council is forecast to increase by 2.1% compared to the 2024/25 budgeted figure. This is primarily due to increase in multiplier and multiplier cap compensation as a result of inflation and additional reliefs awarded to compensate for government support to businesses. There has been an increase in provision for bad debts due to the sluggish economy and a reduction in the appeals provision as potential refund due the new 2023 revaluation reduces.

47. Revaluations are now on a 3-year cycle rather than 5 years. Any revaluation increases or decreases are planned to be adjusted to ensure local authorities are no better or worse off. However, this is a complex adjustment and there is a risk that the Council is not fully protected against loss.

48. Whilst the Standard business rates multiplier is to be increased by September CPI (1.7%), the small business rate multiplier will be frozen for a fifth consecutive year. The 75% Retail, Hospitality and Leisure (RHL) Relief Scheme will be extended to 2025/26 at a reduced rate of 40%. Local Authorities will be fully compensated for the loss of income from these two measures and will receive New Burdens Funding to associated administrative and IT costs.

49. Council will have to estimate the losses in future business rates income arising from successful appeals and reflect this in their calculation.

50. Council cannot increase the level of the business rate (this is set nationally and based on valuations carried out by Valuation Office and the multiplier is set by the Government). In order to increase income, there has to be an increase in Luton's business base or rateable values. The system is intended to make all Councils focus on encouraging business growth, in order to drive the national growth agenda. Luton's issue is that it is already an exceptionally highly developed area with tightly drawn boundaries, so the available space to deliver significant additional business - alongside the housing and schools required for the local population - is much more limited than in most areas. The decision by Stellantis to close its Vauxhall van plant could also have a negative impact on business rates yield if the site is fully not operational in 2025/26 subject to rules governing empty property relief.

51. The principal business area surrounding the airport has, together with Bartlett Square, been designated an Enterprise Zone. This means that none of the zone's business rates are returned to central government for a period of 25 years from April

2016. Under the terms of the agreement, any business rates generated in the zone should be used to benefit Luton. Whilst the coming into commercial operation of the Luton DART will generate additional business rates. The development area at the airport, now known as Green Horizons Business Park, is currently at concept stage following a post-Covid review of the previous Century Park scheme and is, therefore, not expected to generate additional business rates for the time being. Luton Rising are looking at the feasibility of any new developments.

52. The latest projection business rates for 2025/26 is an increase of 1.7% representing the forecast CPI inflationary rise for the year ahead. The growth in Luton will be mainly in the Enterprise Zone and doesn't result in increases in Luton share of business rates.

Business Rates Collection Fund

53. The S151 Officer has delegated authority to determine the estimated surplus or deficit on the Council's business rates collection fund each year (Exec/3/01). Accordingly, the estimated surplus for business rates has been forecast to be £12.435m up to 31st March 2025 with Luton's share being £6.094m. This surplus is attributable to:

- A review of the NNDR appeals provision which released a sizeable sum which is no longer provided to fund potentially successful outstanding appeals. This is one off as the 2023/24 final figures have been assessed and also the baseline has been updated for 2024/25 to reflect the latest forecast.

Revenue Support Grant

54. The Council receives a number of grants from Government for specific purposes. The Revenue Support Grant (RSG) has for many years been the general grant that the Council is able to use for any purpose. Since 2013/14, this has also been supplemented by a Business Rates 'top up', available to all of the Councils whose own business rates income did not reach the level of business rates baseline funding the Government thought necessary at that point. The business rates revaluation came into effect from 1 April 2023 and as a result the Top-up figures have been adjusted. The change in the level of RSG and business rates top up is set out in the table below.

Financial Year	RSG £m	RSG Movement %	BR Top Up £m	BR Top Up Movement %
2013/14	63.955		10.348	
2014/15	52.127	(18.6)	10.550	2.0
2015/16	37.352	(28.3)	10.751	1.9
2016/17	28.769	(23.0)	10.841	0.8
2017/18	21.102	(26.7)	12.868	18.7
2018/19	15.941	(24.5)	13.923	8.2
2019/20	10.879	(32.8)	14.508	4.2
2020/21	10.939	0.6	14.508	0.0
2021/22	10.939	0.0	14.508	0.0

2022/23	11.278	3.0	14.508	0.0
2023/24	12.649	10.8	13.208	-9
2024/25	13.488	8.2	13.371	3.0
2025/26	13.713	1.7	13.594	1.7

55. It is clear from the tables above that prior to 2019/20 the level of reduction in core government funding was very significant. This has been a fundamental challenge for the Council, and the reason why substantial additional income generation and savings have been needed on an ongoing basis. It is also worth noting that the business rates top up is adjusted to reflect the increase in the rateable value as a result of revaluation.

56. Based on the Provisional Finance Settlement, Luton's RSG is set to increase by £0.3m to £13.8m in 2025/26. Taking this into account, Luton's RSG will increase by 2.6%

Funding Equalisation Reserve

57. The Council has one specific reserve to enable the Council to invest/spend in transformation projects during the transition period while efficiency savings are developed and delivered. It would be reasonable to consider as being available in the current circumstances as the Council is embarking on a significant transformation programme over the next few years. The Funding Equalisation Reserve with a current balance of £21m in order to 'buy additional time' if the current programme of proposed savings and deficit recovery plan cannot be fully achieved by March 2026. The Council has engaged Human Engine Consultancy to identify deliverable saving opportunities as part of its Transformation Programme. This reserve was established to help address future fluctuations in major income sources such as business rates, new Homes Bonus, Government Grants and shortfall in income from subsidiary companies. These risks remain given the current economic situation and uncertainty in future funding for Local Government fair funding review which is due to take place in 2025. Any surplus on the collection fund over and above the budgeted amount will be transferred to a new Collection Fund Equalisation Reserve. In 2025/26 £4.1m has been transferred to this reserve to deal with 2024/25 budget forecast overspend and also to deal with any future unforeseen collection find deficit.

New Homes Bonus

58. The Government continues to offer income in terms of a New Homes Bonus (NHB) for Councils who build more new homes per year (and bring empty homes back into use) than the national average. Luton's provisional NHB allocation for 2025/26 is £0.26m (£0.49m for 2024/25). No further payments are expected beyond 2025/26.

Adult Social Care

59. 2025/26 will be the twelfth year of the BCF, whereby funds are pooled or aligned between the BLMK Integrated Care Board (ICB) and Luton Borough Council (LBC) for spending on agreed service areas which should help to minimise hospital admissions, reduce pressures on hospital and to join-up health and care services.

The desired outcome will be people being able to manage their own health and wellbeing and live independently in their communities for as long as possible.

60. The concept of the BCF is to improve the lives of some of the most vulnerable people in our society, taking a person-centred approach to how we meet their needs through placing them at the centre of their care and support, within an integrated health and social care system resulting in an improved experience and better quality of life. All of this takes place within our agreed local plans and local targets and resource allocation being agreed between the Council and BLMK ICB. Following formal approval, BLMK ICB funding agreed within BCF plans is then aligned into one or more pooled funds established under section 75 of the NHS Act 2006.

61. Following the June 2017 Concordat, Luton system committed financial resources to build S75 pooled budget agreement for the future years. The Pooled Funds are managed by respective commissioning teams, for example, LBC is the Host Partner to Children's, Adults with Learning Disability and Public Health Pooled Funds while BLMK ICB is the Host Partner to Mental Health & Wellbeing Pooled Funds. This arrangement will continue in 2025/26.

62. The Council proposed budget for 2025/26 assumes that the S75 budget for 2025/26 for the Council's share of the funding will be updated as per the growth requirements considering Inflation, National Living Wage and Demographic growth etc.

63. The Improved Better Care Fund (iBCF) was first announced in the 2015 Spending review and is paid as a direct grant to local government with a condition that it is pooled into the BCF. The purpose of the grant is to meet adult social care needs, reduce pressure on the NHS and ensure that the local social care market is supported. There has been no increase announced by the Government in iBCF for 2025/26 and fund value remains at £7.481m. The Council used all the iBCF grant in 2024/25 to fund the growth-related increases within Adult Social Care and this will continue in 2025/26. This has been necessary to meet national living wage increases to help stabilise the social care provider market, and to help fund additional costs incurred from growth including increased transition clients from children's services and the delivery of transformational changes required to enhance independence and enable future financial sustainability. It is worth noting that the fund has not been uprated by inflation since 2022/23.

64. Luton has maintained performance in relation to hospital discharge, despite continual and increasing pressure on hospital resources. However, with the pressure on hospital care we are supporting more people at home with high levels of illness and frailty, which has resulted in significant increased complexity and demand across care and support services. This combined with increased costs of care and significant levels of young people with severe disabilities transitioning from children's services, has resulted in significant budget pressures in 2024/25 which will most likely will continue in 2025/26 and beyond.

65. As detailed in other sections of this report, the 2025/26 budget assumes that members will wish to approve an additional 2% Council Tax precept 2025/26 ring-fenced for Adult Social Care, which will help towards meeting the pressures set out in the paragraphs above. The "local government financial policy statement" issued in November 2024 announced additional £680m Social care grant while ASC Market Sustainability & Improvement Fund (MSIF) grant will continue at £1.050bn at national level in 2025/26. While actual allocations of these grants to the local authority will be as confirmed part of local authority settlement, an early indication is that social care grant for Luton will increase by £2.86m to be shared between both Adults and Social Care as previous years. These additional monies will help towards ASC and Children's services staffing pay awards, pay increments, pension increases and Provider's Inflation, National Living Wage (NLW) and National Insurance (NI) related pressures. The hospital discharge grant for Luton is expected to continue in 2025/26 at the same level as 2024/25 at £1.748m which is fully committed in collaborative working with BLMK ICB to support timely and safe discharge from hospital into the community by supporting the funding of social care's rising costs.

66. The Chancellor also announced that adult social care charging reforms will not go ahead in a move the Treasury said would save up to £1bn in 2025/26. Charging reforms were due to be implemented in October 2025, after being delayed previously by two years. The funding which was made available for this purpose in 2022/23 known as MSIF is to continue in 2025/26 at the same level for Luton at £3.5m and will continue to be redirected to help to meet the ASC budget pressures.

Partnership with NHS

67. The Bedfordshire, Luton and Milton Keynes (BLMK) Integrated Care Board (ICB) became a statutory organisation on 1st July 2022 and brings together health and care organisations across the three areas. The Council, ICB and NHS providers have working relationships and arrangements to more effectively meet the health and well-being needs of the residents of Luton. Two of the main statutory functions of the Health and Well-being Board are to oversee reductions in health in equality and promote integration which can only be achieved through effective partnership working. Luton at Place has a work programme designed to improve outcomes for Luton residents that the system works on together, such as the All-Age Mental Health Strategy. Decision related to joint funded arrangements via BCF and S75 agreements take place in Joint Strategic Commissioning Group (JSCG) and other subgroups including Children's JSCG and Finance Subgroup in regular meetings throughout the year between BLMK and ICB. Where there is an opportunity for collaboration within the BLMK ICB which may have a direct or indirect dependency on Council resources, Council officers involved in BLMK ICB governance and working groups, inform the Corporate Director of Population Wellbeing of any issues they believe need to be raised and discuss with the Council's Executive, and/or Luton's Health and Wellbeing Board and the Luton Health and Social Care Scrutiny Committee as appropriate.

Children's Social Care

68. Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children's social care. Children's social care services support children with the greatest need – children who are disabled, who must be protected from harm or who need to be placed in residential foster or other types of care.

69. Luton's Children's services budget and service provision have been under pressure for many years due to the high levels of care and support needed by many local children and families, and the costs of agency staff needed to cover posts that could not be filled on a permanent basis despite the improved workforce position. The rising cost of placements, especially due to profiteering by organisations and the national shortage of foster carers are adding further pressure on the Children's Placement Budget. Across the UK there's currently a shortage of 6,500 foster families and rising – a figure which comes during Foster Care Fortnight (13 – 26 May), as highlighted by the national charity, Fostering Network.

70. According to Local Government Association (LGA) figures published in November 2024, there are now 83,630 children in the care of councils at national level and the number of looked after children as of 31 March 2024 was 4.5 per cent higher than in 2020. The number of children's social care placements costing £10,000 or more per week has risen 1,150 per cent in five years, a survey of English councils by the LGA has revealed. Nearly every council (98 per cent) said a lack of choice in placements was driving the high prices. Over nine in 10 (93 per cent) councils also highlighted children needing help with increasingly complex needs, including mental health needs or exhibiting challenging behaviours, as a factor.

71. The LGA said these high figures underline the urgent need for the Government to use the forthcoming Spending Review to address the funding pressures in children's services. While the additional funding in the Autumn Budget for social care was helpful, LGA analysis shows children's and adult social care faces additional cost pressures of £3.4 billion in 2025/26 compared to 2024/25. Councils also need further clarification on the impact of the change in Employer National Insurance Contributions. Councils have faced spiralling costs and pressures in children's social care, with budgets up by 11 per cent in real terms in the last year alone. Key drivers behind the increase in children needing support include mental health concerns, substance misuse and domestic abuse.

72. The additional Social Care Grant for 2025/26 is being shared between ASC and Children's Services. These additional monies will contribute towards Children's staffing pay awards, pay increments, pension increases and Providers Inflation and National Insurance (NI) related pressures as per the Council affordability.

73. Like many other local authorities, other pressured areas within Luton Children Services are children's social care staffing budgets and SEND transport budgets. Children's workforce and transport boards are now working on deficit recovery plans to deal with these pressures. While children's social care staffing budget pressures are due to of high use of expensive agency staffing to fill the current statutory vacancies which is a national social work recruitment issue, SEND transport pressures are directly correlated with the increased demand of children with Education, Health and Care Plans (EHCPs) entering the system.

74. The local government finance settlement policy statement also indicated a new Children's Social Care Prevention grant worth £250m for 2025/26 at the national level for children's social care reform and prevention activity through family help. While actual allocations will be announced part of the settlement, a high-level indication shows it to be circa £1.7m for Luton. The same policy statement also mentioned about Children and Families grant which includes previously received Supporting Families Grant, actual allocation for Luton for 2025/26 is not announced yet.

75. Children, Families and Education service in Luton strives to ensure continued safe and effective service delivery in line with the Council's ambition of Luton being a vibrant and prosperous town for all its residents.

Rising Demand and Complexity in Social Care and homelessness

76. Since coming out of the Pandemic, the UK Economy has seen high inflation, energy price fluctuation and a Cost-of-Living Crisis. While hyperinflation seem to be in control, both Children's social care, SEND transport, Adults Social care and homelessness including supported living are now seeing a substantial increase in demand which is putting a considerable amount of budget pressure on the Council available budgets. The greatest impact has been on quality of care, workforce, and market fragility, and it has also revealed unmet need and disjointed care. There has been significant increase in costs for temporary accommodation and supported living to levels not seen in the past. Although as noted above, government has provided some additional grants in 2025/26 to deal with some of these pressures, according to LGA there will be up to £3.4bn additional pressure for the local authorities in 2025/26 as compared to 2024/25 for both ASC and Children's social care and this is likely to add significant pressures onto budget management and future planning in social care, housing and SEND transport.

Income – Fees & Charges, Commercial Property Rent

77. Luton Borough Council is relatively heavily grant-dependent. This means that standard percentage reductions in grant have a greater impact on Luton than on the average authority. The reason that Luton is grant-dependent is that it has a higher than average relative need, and a lower than average Council tax income per dwelling as most of the dwellings are band A or B. As a result the old, needs-related grant system gave it above average levels of grant. This has a negative impact on the spending power of the Council hence the Council needs to maximise its ability to raise income taking into account any risks associated with any investment in order to be able to fund demand-driven services such as Adults and Children's Social Care, Homelessness, Refuse Collection and Waste disposal.

78. As part of the budget setting process, managers undertake a review of the scale of charges for services which will apply in the following year. The Council's policy is to set charges for services which are used by sections of the community in Luton; rather than services used for the benefit of the community as a whole. This is to ensure that Council taxpayers are not subsidising the particular interests of individuals, or work of commercial companies. The Fees & Charges Framework guiding principles for charges are viability, fairness and helping the disadvantaged. Fees and charges should aim to achieve full cost recovery where possible.

79. High levels of inflation have been experienced over the last two years but inflation has now stabilised. Inflation increases the cost of Council services and therefore fees and charges are proposed to be increased to recover the additional costs. The Executive of 6th January 2025 will consider a separate report containing further proposals for a revised scale of fees and charges, applied from 1st April 2025 or an alternative date as detailed.

80. It is estimated that the proposed charges for 2025/26 would generate an additional income yield of £669k, a 3.9% increase on the total current income level from charges. This relates mainly to:

- Development Control, including pre-application advice £120k
- Parking Services £120k
- Adult Social Care non-residential services £91k
- Garden waste subscription service £60k
- Bulky household waste collections £50k

81. Income yield is relatively small as it reflects a number of limiting factors in uplifting the scale of fees and charges:

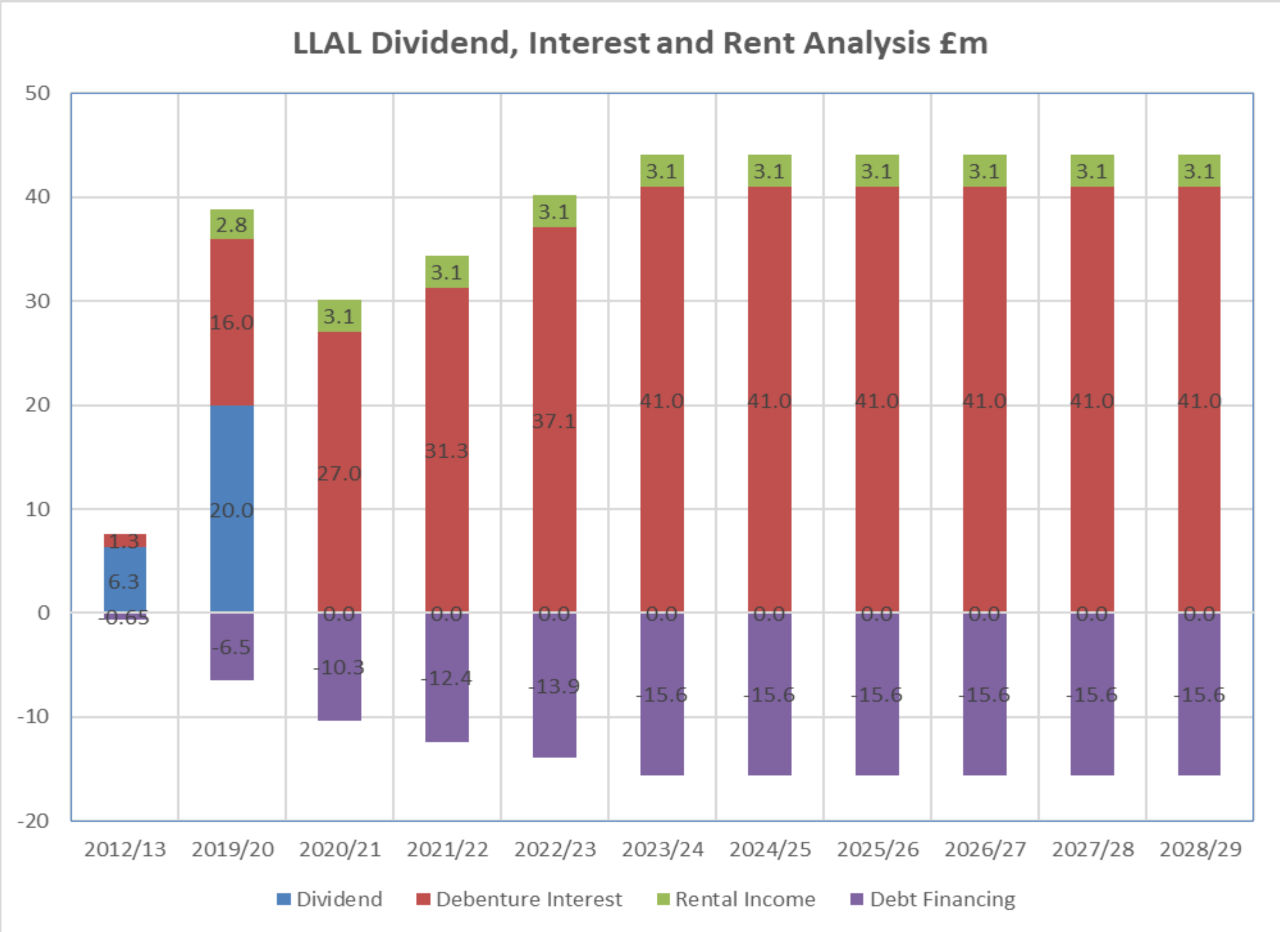
- charges set by statute or regulation where the Council has no discretion and increases are proposed at this review where confirmation of statutory increases has been received.
- services where current income levels are below the 2024/25 budget target and where any additional income from the proposed price increase is required to meet the existing budget targets
- benchmarking of charges with similar organisations or business competitors showing that charges are already at upper limits
- reducing demand for some chargeable services, resulting in the proposed deletion of charges that are no longer used or the restructuring of charges in some services to maintain income levels or to work toward improving cost recovery

82. The final impact on the Council's budget position is also affected by any difficulties reported by services in meeting the current level of budgeted income. A number of areas have reported issues in this year's monitoring, including parking services and adult social care, and this will absorb the majority of the additional income. The impact for the 2025/26 Budget is therefore estimated to be considerably lower than the £669k referred to above, with only £261k of the overall increased yield total being added to the budget.

83. Some commercial charges made by the Council are proposed to increase above the estimated level of inflation, to more accurately reflect the amount of work and cost involved in providing the service or to align charges with the latest benchmarking data. Also some fees and charges are reviewed on a longer time scale e.g. parking due to the limitation in the number of coins being used. Not increasing the income yield from charges in line with inflation does lead to increased pressures in balancing the Council's budget. The Council needs to deliver discretionary services which are economically viable, balancing this with charges which are affordable, fair and inclusive.

Interest, Dividend and Rental Income

84. The medium term financial plan (see Appendix A) now assumes no benefit from dividend in the revenue account on an ongoing basis, significantly reducing the base budget's reliance on airport funding. The proposal for the future is that dividend is focussed on delivering viable capital schemes. For Foxhall Homes Ltd, the Council's wholly-owned housing development company, there will be no dividend in 25/26, but interest payable on outstanding loan principal in 25/26 will be in the region of £1.7m to £2m.



85. As shown in the table above, dividends are not expected from LLAL over the medium term as the company has been severely affected by the aftermath of COVID-19 Pandemic and yet to reach its pre-pandemic level of passengers. Hence the Council is not placing any reliance on dividend to balance the revenue budget. Debenture interest grows over the medium term due to further planned project financing and stabilisation loans and also as some loans has been re-profiled. Rental income remains stable over the plan period. Council debt financing costs reflects the costs of borrowings and takes into account the low level of interest rates. This shows that the Council still receives net income after debt servicing costs of around £28m which helps the Council to provide key services and also to keep Council tax low.

Growth and spend pressures

86. Service Area Growth proposals are detailed in Appendix L and total £4.3m. Of this, the largest elements relate to demographic and demand led pressures within Adult Social Care (£2.1m) and Children's Services (£0.8m) and pressures on the homelessness budget (£0.7m).

87. There are significant general Council wide spend pressures affecting all Departments, specifically Inflation (£4.9m) and Employee Costs (£4.4m). The latter assumes a 2025/26 Pay Award of 3%.

88. It should also be noted that it is simply not sustainable to allow all budgetary pressures to result in extra savings requirements and/or unaffordable growth, when those savings will mean reductions in services. Therefore managers need to be actively managing demand for services, particularly by enhancing people's capacity for independence, to keep spend within budgets wherever possible and take corrective measures to ensure forecast spend are kept within approved budget as part of prudent financial management and ensure best value.

89. Amounts to baseline 2024/25 budget pressures per service are as follows:

	£000s
Chief Executive	937
Children Families and Education Services	2,525
Inclusive Economy	63
Population Wellbeing	8,120
	11,645

90. This budget does not include any specific contingencies to address significant spend pressures and savings proposals in areas where the budget is overspend as recommended by CIPFA. The level of contingencies have been reduced significantly and now covers only areas where it is absolutely necessary. The level of contingencies especially this year reflects the potential impact of a slower growth in the economy and inflation and interest rates staying higher for longer which may impact on the demand led services.

Savings & Increases in Income

91. The level of savings as detailed in Appendix M has to be viewed in the context of what the Council has achieved over the last ten years, including 2024/25, as shown in the following table showing historic savings by type.

Savings Category	£m
Process & efficiency improvements	48.027
Trading & Commercialising	34.049
Changes to organisational structures and responsibilities	26.976
Procurement & Commissioning efficiencies	27.781
System/service redesign to customers	25.940
Total savings	**162.773**

92. It is worth noting that this level of unprecedented savings has been achieved while at the same time protecting as far as possible key services i.e. by finding alternative, innovative and more cost-effective ways to deliver the same level of service. Until recently as explained in the Emergency budget report and the impact of LLAL dividend, a significant part of the budget gap has been bridged by achieving substantial increases in income through trading and commercialisation.

93. Options for achieving further savings and increased income are becoming more limited and challenging and the Council has been quite innovative to generate initiatives over the years. It is also worth noting that as per the latest Government guidance Councils are not allowed to borrow to finance investment projects. As part of continuous improvement, this budget includes £268K of income from sales and charges which is mainly to recover the additional costs due to inflation.

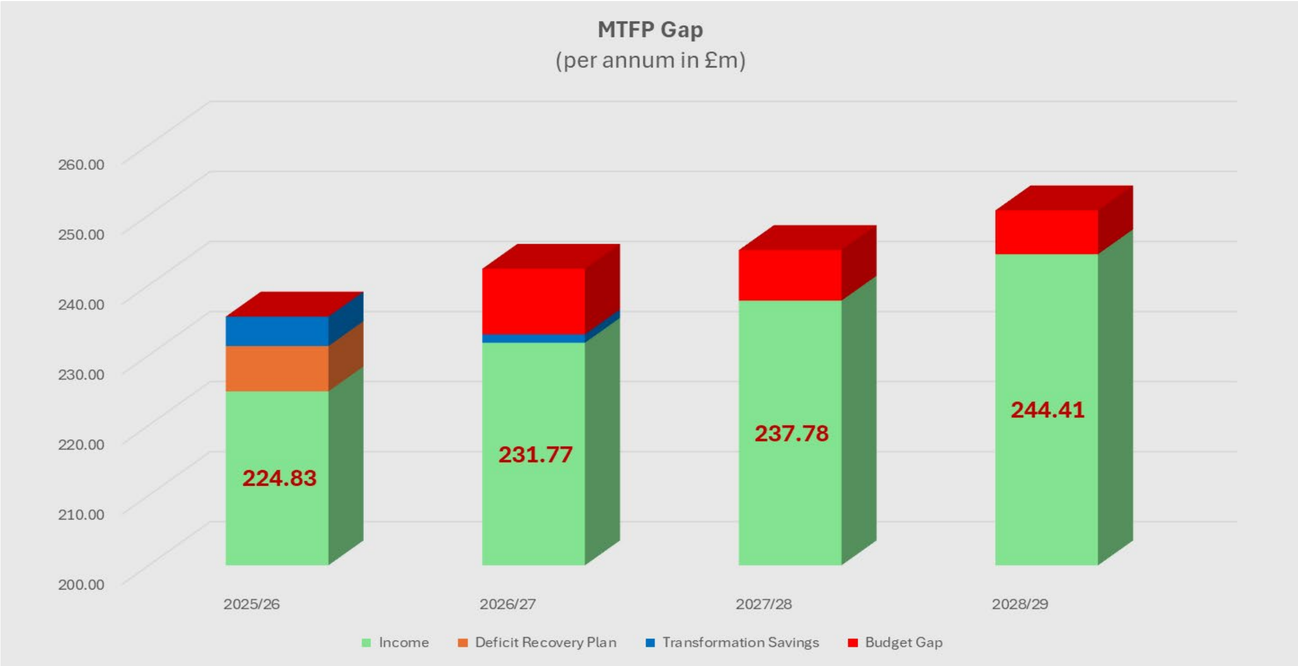
94. The Council has a track record of delivering a balanced budget over many years and this continued in recent years. The updated position at the 2024/25 Quarter 2 (Q2) monitoring forecasts a core net deficit of £13.3m. The Council has delivered part of the savings included in the 2024/25 budget. However, increased demand for Council services, non-delivery of some savings targets, cost pressures and income budgets not being met due to the state of the economy and cost of living crisis has resulted in an increase in the level of core deficit. Whilst the general economic environment is improving slowly, demand and cost pressures on social care and homelessness shows no sign of relenting. As part of the preparation for this budget previous savings targets deemed not deliverable within the timeframe have been refreshed and a revised savings target has been set as part of the revised transformation and deficit recovery plan. In addition, Service Directors have updated their deficit recovery plans to address the £13.3m underlying pressures reported in the Q2 Monitor. Delivery of these revised Savings Targets and Deficit Recovery Plans are critical to the ongoing financial sustainability of the Council's future budget position and robustness of the budget.

Financial Sustainability 2025/26 – 2028/29

95. The Council's financial sustainability remains dependent on a number of key factors, including:

- A fair multi-year settlement for the Council which reflects the needs, levels of deprivation and low council tax base and certainty over future funding including one off grants;
- Service reviews and continuous improvement to ensure Council delivers best vale;
- pro-active and robust demand, costs and budget management, monitoring and reporting with corrective measures to recover any in year deficit;
- continuous development of services to improve local lives by enhancing independence, so reducing the need for intensive interventions,
- stabilisation of the Council's companies, to ensure their ongoing commercial viability and resilience;
- Robust and timely management of capital programmes and invest to save and transformation projects to ensure they are robust, affordable , sustainable and deliver value for money;
- as noted and recommended by the CIPFA report, sustained senior management effort to develop and deliver the Future Ready programme now part of the Council's transformation programme, combined with a further review of the potential for property rationalisation and enhancing return on investment.

96. As per the chart and table below, further yearly savings as part of the deficit recovery plan and transformation programme (2025/26: £10.67m, 2026/27: £9.36m, 2027/28: £7.22m and £6.25: 2028/29). This is based on the assumption no further long-term slowing down of the economy. The latest forecast shows that inflation remains around the 2% national target and the Bank of England continues to reduce base rates. 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.



MTFP Three Year Summary	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £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**

Budget & MTFS Assumptions

97. The following planning assumptions have been made in the preparation of the budget strategy and financial strategy.

- The final settlement for 2025/26 to be announced in January 2025 being in line with the provisional settlement.
- Pay awards including on costs at 3% in 2025/26 and 2% onwards –The 2025/26 budget also includes pay increments and additional costs associated with the implementation of the national living wage.
- The Council tax increase being 2.99% in 2025/26, plus a 2% adult social care precept, giving a total increase of 4.99%. The increase in Council tax income in 2025/26 amounts to £7.5m. (Yield depends upon the number of properties, discounts, impact of Council tax support, the provision for non-collection, as well as the percentage increase in Council tax).
- Improved Better Care Fund continuing without any uprating for inflation.
- Provision for price increases being limited to specific contractual requirements where there have not been underspends in previous years. As a key part of the 2025/26 budget preparation process the amounts of inflation allowable have been subject to corporate challenge, and substantial amounts of the savings proposals are reductions in the levels of inflation that were incorporated into the budget planning process. Other general inflationary increases will have to be contained within the cash limited budgets. The inflationary pressures linked with energy to reflect the latest data available.
- Interest rates to stabilise and no significant (other than 25 basis points) reduction is anticipated in 2025/26 – cautious approach.
- No major financial impact as a result of future changes to the Business Rates Retention scheme as a result of resets and revaluations in 2025/26.
- No future reductions in RSG except as part of the fair funding review due to take place in 2025.
- Increase in the business rates multiplier by rate of CPI inflation (assumed at 1.7% in 2025/26 and 2% onwards) or the equivalent in grant if the small business multiplier continues to be frozen. The MTFS assumes no real term growth in business rates over the foreseeable future as most growth is expected to take place in the Enterprise Zone. There is also the potential reduction in income due to the closure of the Vauxhall plant.
- No significant change in income from LLAL in 2025/26 and future years as LLAL has to service the additional debenture loans. Additional annualised interest generated from loan to Foxhall Homes and Invest to Save projects amounts to £1.4m. No dividend is forecast from Foxhall Homes profits are ploughed back to fund residential affordable homes which are being let.
- Additional pension cost assumed as per the 2023 triennial valuation and recommendations – £900K has been set aside as sinking fund subject to pension fund next triennial valuation in 2026.
- Allowance of an additional growth of in excess of £10m per annum over the period from 2026/27 to 2028/29 to address unidentified projects and budget pressures such as pay related, inflation and demographic changes. This is

subject to robust costs and demand management and any additional growth would require further savings to be achieved in year.

- The currently estimated revenue impact of the capital programme, which has been calculated on the basis that the major infrastructure project including the dualling of Vauxhall Way circa £35m become Council schemes on approval of the final business cases, delivery models and fully funded by external financing options and that there are no un-programmed costs arising from major projects – present or future. However, the Council does have a Major Projects Reserve as a consequence of any risks arising from exiting projects.
- The minimum provision set aside for debt repayment has been reflected in the MTFP. It is worth noting that increase in MRP over the next five years amounts to £7.1m. This reflects the significant level of spend on the funded element of the capital programme and a key issue for the future will be assessing and prioritising the potential revenue impact of future capital proposals alongside revenue budget pressures. Officers will be reviewing the Council's Capital Strategy in order to ensure that the capital programme enables the Council to deliver the 2040 vison and at the same time is prudent, affordable and sustainable.
- No additional costs arising from risks shown in the budget risk management strategy apart from those listed here.

Value for Money & Efficiency (Transformation Agenda – Future Ready)

98. The Council has a statutory duty to deliver value for money with public funds. The external auditors as part of the annual audit have a duty to report whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor's report on VFM can be accessed through the council's website

99. The need to seek value for money on an ongoing basis is and has been at the core of the Council's plans for many years. This is particularly important since the numbers of vulnerable people requiring care services and housing need continue to increase. This approach is supported by the Council's Strategic Change and Transformation teams and is a key part of the transformation strategy. The budget gap over the next three years requires significant action and this is underlined by the recommendations of the CIPFA report. The CIPFA resilience index has pointed out that there is potential to reduce the Council overall spend in order to be in line with our statistical neighbours.

100. The Council continues to use sustainable procurement, together with e-procurement processes, within the context of its procurement and commissioning strategies, to make savings while aiming to achieve service and environmental objectives. The Council has a centralised procurement team with a remit to drive significant savings from commissioning activities and contract management. Officers are also focusing on identifying all expenditure outside contractual arrangements and developing plans with cost centre managers to transition such expenditure into contracts. The Council produced a revised strategy which has highlighted the need to deliver savings. The 2025/26 budget includes significant "invest to save" investment in the procurement team in order to deliver the new legislation and also to deliver efficiency savings. However, the savings arising from procurement and commissioning has to be quantified and should assist in delivering the savings required in the medium to long term. Further work to use procurement as an innovative mechanism to deliver social value and wider Council objectives will continue. A local wealth building approach will be central to building a more inclusive economy, by keeping more of our collective spend within Luton and by generating real social value through procurement.

101. The Council will continue to set a clear example through the revised procurement strategy, which aims to increase our local spend significantly. Our strategy will also increase the proportion of our procurement spend with local SMEs and will encourage our suppliers to employ and develop local people, buy from local supply chains and reduce environmental harm.

102. We will work closely with anchor institutions and large employers in the public sector to adopt a collaborative procurement approach that keeps more of our collective spend within Luton and to take forward our social value framework. This framework will maximise opportunities for social value through procurement, including a buy local approach, real living wage, support local people into employment and supporting wider environmental and health outcomes for the town.

103. The savings set out in Appendix M reflect the application of value for money principles in order to produce proposals which are robust and sustainable. The level of savings being delivered in a short period of time carries inherent risks which has been mitigated by setting aside reserves and profiling to reflect both risks to deliverability and timing of benefits realised during the transition period.

Capital Programme 2025 - 2030

104. The draft Capital Programme 2025 to 2030 includes significant proposals to improve Council-owned facilities and developing Luton to support safety, business growth and a sustainable environment for its residents in line with Luton 2040 vision. The programme does need to be assessed in the context of the following risks and uncertainties:

- the recommendation issued by MHCLG,
- potential impact on revenue budgets in future years,
- the total level of borrowing,
- the revisions to the prudential code for capital finance,
- development of the full business cases including delivery models and financing options before the projects can proceed.

105. A ‘blank sheet’ approach has been adopted in relation to all budgets that are not ring-fenced. The Capital Strategy, attached as appendix H details the Council’s approach to capital investment and the associated governance, treasury and risk management. The capital bid process is outlined below:

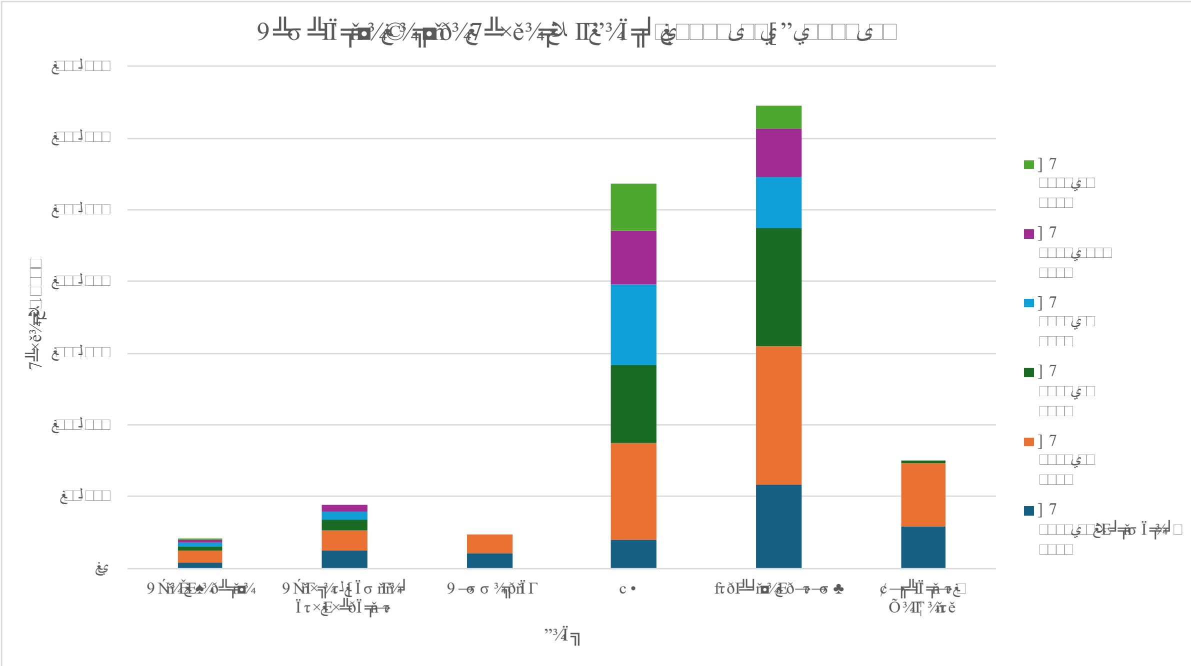
a) Requests for Capital funding was invited and received.
b) Each request was assessed by the Capital and Assets Forum against the prescribed LBC priorities and objectives
c) Requests were allocated to one or more of the following categories: New, Existing, Slippage, Renewal and Contractually / Legally Committed.

d) Each request was further annotated with its funding source.
e) Business Cases and option appraisals were provided where requested for internally resourced new Funding requests. However, a number of projects will have to be developed further before final approval.
f) Resources were reviewed and challenged for certainty and prudence.
g) The baseline position was assessed including new requests.
h) The 2nd Quarter Capital Monitoring returns out-turn positions were analysed to challenge and check any proposed slippage or under-spends. Some budgets were reduced by fund holders following this review.
i) The Chief Accountant undertakes a challenge and scrutiny of each funding request followed by a further review of the overall programme by Corporate Leadership Management Team (CLMT).
j) As a result of h) & i) above a few funding requests and existing budgets are shown with amendments and/or funding reductions to achieve a revised base line programme.

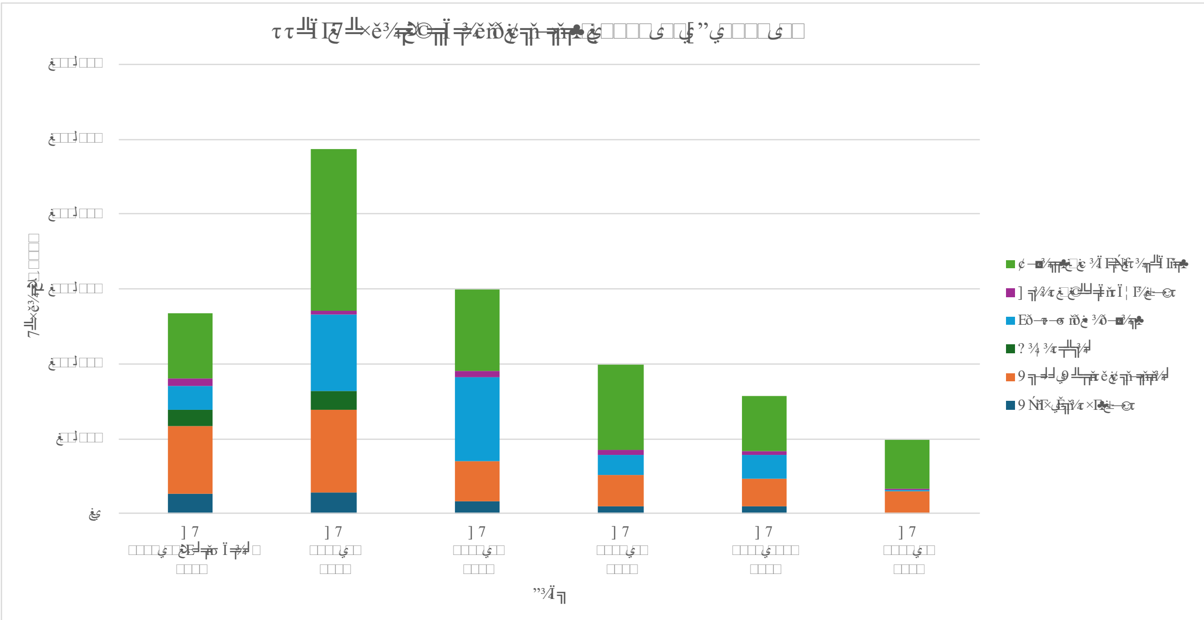
106. The base-line position, with all Options Appraisals (wherever included as part of the draft submissions which will be subject to further due diligence), produced a significant increase for the life of the capital programme (excluding the additional 2029/30 financial year). The pipeline of projects includes major refurbishments and assets replacements projects, which are added on the basis that the Council will in due course enable them to be commercially viable, financeable and fully developed and supported by full business case, hence revenue impact of Council borrowing is assumed in the medium term plan for those projects, which are listed below (paragraph111-117 of Annex 1).

107. All complex and high value projects with significant risks will be evaluated separately outside of the annual capital programme cycle and further reports supported by full business case submitted to Executive and full Council for approval and they will also be subject to detailed scrutiny prior to expenditure commitments being made. A summary of the programme is set out in the charts below. The second chart shows the total capital programme associated with delivery of the 2040 vision and council's priorities.

Budget Allocation by Service



Budget Allocation by Strategic Priorities



108. The analysis in the tables above show potential capital expenditure of £487(£755m including HRA) in the next 5 years. It is essential that the Council considers both the merits of any project and its impact on the Council's financial sustainability in the short, medium and long term prior to approving the scheme. The major projects will have to be approved by the Executive and supported by final business case, delivery models and financing options to ensure that funding are secured before they can proceed. The second graph shows how the Council is aligning its investment with the strategic priorities it is committed to.

109. The revenue generated from asset sales has significantly decreased over the years, and the Council does not anticipate any disposals for 2025/26 and beyond. This means that most of the capital projects are funded through borrowings which requires setting aside revenue funds to cover both debt servicing costs and Minimum Revenue Provision (MRP). Due to the increased pressure on revenue budgets, a few projects amounting to £8.7m were not approved. All projects will have to be supported by robust final business cases before any financial commitments are made and they will require Executive approval where appropriate. The total debt servicing costs and MRP for those projects funded from borrowing have been included in both the revenue budget and Treasury Management Strategy based on the current MRP regulations.

110. In December 2023, the UK government initiated a consultation to amend the statutory guidance and regulations concerning Minimum Revenue Provision (MRP). This consultation aimed to address practices by some local authorities that resulted in underpayment of MRP, potentially jeopardizing financial stability.

Governance arrangements for the capital programme

111. All new projects will have to submit robust business cases to the Executive for approval before the allocated funds are released. The business case will have to follow best practice and comply with guidance published by HM Treasury namely the "Green Book" and the "Five Case Model". Once this is obtained, the project is governed under the Project Management Framework and overseen by the Major Projects Board and/or any other governance arrangements put in place and approved as part of the business case approval process. All projects will have to be closely monitored, and regular report will have to be submitted to Executive with recovery plan in the event of any overspend to ensure that the projects are delivered on time, within budget and are set to deliver the outcome.

112. The recommendation of the CIPFA report with regard to governance of the capital programme was that 'in view of the scale of increase in planned borrowing required for the airport stabilisation package and its impact on the Council's balance sheet, financial gearing and risk, approval by the Executive and Full Council of the final business case should be accompanied by a full review and approval of the Annual Borrowing Strategy and the impact on prudential and treasury indicators.' It is proposed that all future increases in borrowing to fund expenditure by Council companies will be accompanied by such a review and approval. The capital programme does not include any additional borrowing for London Luton Airport Limited.

113. Internal resourcing of the capital programme is in line with previous years. There are no projects funded from capital receipts in the next four years. Prudential borrowing supporting the proposed general fund capital programme over the next five years amounts to £255m for General Fund and £158m where interest is charged to the HRA.

114. The net movement in the programme since the Q2 monitoring has been factored in future capital programme and funding allocated accordingly as detailed in Appendix H.

115. The most significant new additions (including new schemes and future year costs of existing schemes) are described below.

I. An amount of £7.5m to refurbishing Luton Central Library works up to and including 2029/30. It includes replacement of mechanical and electrical services, windows, re-roofing, removing cladding, redecoration and refurbishment of lifts and external facia.

II. An amount of £6.3m is needed to refresh End-User-Computing equipment and additionally replacing aging networking equipment across all sites.

III. Discretionary expenditure of £0.85m on the Employee Experience programme, which will improve the physical and digital environment to improve efficiency and aid recruitment and retention of staff.

IV. An overall amount of £3.7m is required to the existing transport replacement programme to replace all Council's vehicles and equipment. This will increase additional funding of £3.6m during 2025/26.

V. The footway upgrades existing programme requires a capital investment of £3m over a five-year programme will reduce the backlog of footways in need of upgrading making them safer.

VI. The existing highway Maintenance programme requires additional funding of £6.3m to improve the condition of the public highway and move forward from keeping the borough's highway infrastructure in a steady state of repair and to manage the deterioration of the highway network.

116. Within the new bids are "invest to save" initiatives that should help to create surpluses in the General Fund. These bids will only be fully approved with a robust business case and agreed cashable savings. The most notable invest to save bids are briefly outlined below;

- TAPS 5 – acquisition of residential properties £20m
- TAPS 5 - investment in Council estate £10m, to assist development of more in house infrastructure to deliver services such as Social Care
- £1.5m Major refurbishments to Apex House
- £60k for to install electronic barriers at the Vicarage Street Car Park reducing the patrolling requirements of parking officers.
- £250k for the Luton Council Car Parks in need of resurfacing and relining.

- £72k of investment to reinstate the statutory flooring and segregated areas required for the M.O.T testing facility to meet the standards.

117. The key risk factors in relation to the Capital Programme are as follows:

a) The overall size of the programme is relatively large for a small unitary authority in recent years.
b) The potential impact on the revenue budget, particularly if the draft minimum revenue provision regulations are approved unchanged by government.
c) Programme and project management risks associated with major projects, investment projects and potential overspend.
d) High value existing contractual commitments within the programme.

Schools Funding

118. Schools are funded directly from the Dedicated Schools Grant (DSG) – which also funds some functions carried out by the Council on behalf of schools. The amount of DSG for 2025/26 depends on actual pupil numbers and characteristics of those pupils on the October 2024 school census and the January 2025 early years census.

119. In addition to DSG there is also pupil premium available for 2025/26. For Primary pupils the rate is (to be confirmed) as compared to the 2024/25 rate of £1,480. The Secondary Pupil rate for 2025/26 is (to be confirmed) as compared to the 2024/25 rate of £1,050 per secondary pupil who is or was eligible for a free school meal at any time in the last 6 years. In addition, looked after children and service children attract the pupil premium for 2025/26 is (to be confirmed) as compared to £2,570 in 2024/25 and (to be confirmed) as compared to £340 in 2024/25 per pupil respectively.

120. Currently local authorities receive this ring-fenced DSG funding for schools and education and an indicative value for 2025/26 is £329.5m (excluding NNDR allocation in Schools block). The DSG is split into 4 notional blocks (Schools block, Early years block, High needs block and Central school services block) and is mostly based on an October count of pupil numbers (except for the early years element which is based on the January early years census). The notional blocks are not ring-fenced and authorities can move funding freely between them with the agreement of their school's forum, although transfers from the school's block to the high needs block are limited to 0.5% of the school's block. The notional blocks are set out below.

Schools Block

121. The schools block funding continues to be allocated in accordance with the national funding formula for schools. The total provisional funding for Luton in 2025/26 is £241.3m (excluding NNDR allocation), compared with the 2024/25 total of £226.7m. The indicative units of funding for primary and secondary pupils for 2025/26 are £5,470 and £7,352, an increase from £5,099 and £6,810 respectively. These are multiplied by 22,590 primary and 15,741 secondary pupils and added to funding for premises of £3.77m and pupil growth of £507k with a deduction of £2.34m for NNDR giving a total schools block of £241.3 m. This block funds primary and secondary maintained schools, academies and free schools.

Early Years Block

122. This is funding for 2-, 3- and 4-year-olds, in both the maintained sector and in private, voluntary and independent providers of free early years education. From April 2025, the early years block will be funding early years entitlements and other funding streams as detailed below:

- the 15 hours entitlement for eligible working parents of children from 9 months up to 2 years old (due to be extended to 30 hours from 1 September 2025)
- the 15 hours entitlement for eligible working parents of 2-year-old children (due to be extended to 30 hours from 1 September 2025)
- the 15 hours entitlement for families of 2-year-olds receiving additional support (formerly known as the 2-year-old disadvantaged entitlement)
- the universal 15 hours entitlement for all 3 and 4-year-olds
- the additional 15 hours entitlement for working parents of 3 and 4-year-olds
- maintained nursery school (MNS) supplementary funding for 3 and 4-year-olds
- the disability access fund (DAF) for eligible children accessing the early years entitlements
- the early years pupil premium (EYPP) for eligible children and looked after children accessing the early years entitlements

123. For 2025/26, the hourly funding rates is expected to increase for the two-year-old entitlement and for the three/four-year-old entitlements from the current hourly funding rates of £8.37 and £5.87 to £8.63 and £6.10 respectively. The hourly rate for under 2s entitlement will increase from current £11.41 to £11.76. There is also expected to be an increase in the supplementary funding hourly rate for Maintained Nursery Schools from £6 to £6.25 in 2025/26. The ESFA has increased the early year's pupil premium from 68 pence per hour, equivalent to up to £387.60 per eligible child per year, to support better outcomes for disadvantaged under two, two, three- and four-year-olds. Funding for the Disability Access Fund - an additional payment made to providers to help to make reasonable adjustments within their provision to support eligible under two years, two, three and four years old, children with a disability, is also expected to increase from 1st April 2025.

High Needs Block

124. For 2025/26, High Needs Block (HNB) Funding is to be estimated at £51.630m as compared to £47.695m in 2024/25 after import/export adjustment but before any further deductions.

125. This block funds provision for all high need's pupils and students from early years to age 25, in line with the Government's proposals for Special Educational needs and disability.

126. Due to the volatile nature of this area resulting from demand-led pressures, HNB often causes over-spend which is normally covered using DSG central reserves. Due to of these pressures, starting HNB budget for 2024/25 was not balanced by circa

£1m which is all being funded by the centrally held reserves. These considerable pressures are continuing in 2025/26 and despite of additional HNB allocation, it is not sufficient to cover the full required statutory spend plan. An extra ordinary Schools Forum meeting has been called in January 2025 to look at various options to balance this block including the option of potentially transferring some budgets from the school's block to HNB (0.3%) as per DSG allowed processes and after agreement with the school's forum. However, it is worth noticing that even after agreeing this block transfer, there will still be circa £0.5m budget gap and central DSG ring fenced reserves will be called upon again to balance this budget gap.

Central School Services Block

127. The allocation of this block in 2025/26 is £1.804m as compared to £1.653m in 2024/25, which is derived by multiplying 38,331 pupils to £45.71 unit of funding and then adding £52k funding for historic commitments.

128. Formal approvals of all the above estimates are properly agreed by the Schools Forum in January and March meetings on annual basis. At this point, as the representative body of schools and other providers of education and childcare, the Schools Forum requests that the following decisions for the 2025/26 Schools Budget are agreed by Executive.

Item	**2025/26 Funding £'000**
Approval of the funding formula for primary and secondary schools 2025/26 and the growth fund for schools undergoing local authority approved expansion (after assumed block transfer of 0.3%)	£240,504
Approval of centrally retained school services block budgets for 2025/26	£1,804
Approval of early years central budgets for 2025/26	£1,239

Public Health

129. Public health works to protect and improve the health and lives of individuals, families, communities, and populations. Public health is about helping people to stay healthy and protecting them from threats to their health and to assist in delivering the 2040 vision. Work in public health contributes to reducing the causes of ill-health, reducing health inequalities, and improving people's health and wellbeing.

130. Public Health has a ring-fenced budget to focus on key health and wellbeing issues and deliver mandated services, including the service for 0–19-year-olds (health visiting and school nurses), sexual health, NHS health checks and substance misuse services.

131. The Council is required to use its allocated ring-fenced PH grant to fulfil its duty to take appropriate steps to improve public health and reduce health inequalities. The Government reduced the Public Health Grant annually between 2015/16 and

2019/20, despite the 5-year plan for the National Health Service stating that public health was critically important. Public health grant has increased since then every year in line with inflation and Luton allocation of PH grant was £17.079m in 2024/25 which was an increase of 2.3% from the previous year.

132. In the budget announcement in October funding for public health was not mentioned but there is an indication that non-NHS expenditure within the Department of Health is under pressure. There was also no mention of Public Health grant allocations in local government finance policy statement. Allocations could either be announced alongside the settlement or any time up to the start of the next financial year.

133. Work is in progress with various scenarios to understand the impact if PH grant is not increased at all or increased by 1% to 2%. This is necessary to recognise how to accommodate the inflation and pay award pressures for 2025/26.

134. It is expected that at the start of 2025/26 PH brought forward ring-fenced reserves will be circa £900k depending on 2024/25 final outturn. Service had planned to spend further from this brought forward reserves in 2025/26 on additional fixed term staffing and one-off additional projects, for example tobacco strategic actions, complex vulnerabilities/town centre for all strategic actions and the Marmot approach and continuing the inequalities work programme to enhance Public Health related outcomes in Luton. However, this whole programme of one-off spends is now being revised depending on the available grant allocation for 2025/26.

135. As part of the Covid-19 response, Government gave added responsibility to Public Health teams to manage the Test and Trace Support Service Grant which was subsequently renamed as Contain Outbreak Management Fund (COMF). Luton received £8.5m COMF funding over the two-year period 2020/21 and 2021/22 to reduce infection transmission and the impact of Covid. Any committed underspends were allowed to be carried forward into 2024/25 with the condition that balances must be fully spent by September 2024. Luton has now fully allocated and spent this funding and there is nothing available to be carried forward into 2025/26.

Revenue Budget 2025/26 – Key principles

136. For some years the Council has aimed to set a balanced budget without the use of reserves to pay for ongoing revenue expenditure, although this principle had to be suspended in the setting of the emergency and 2021/22 budget. The 2022/23, 2023/24 and 2024/25 budgets were set without use of reserves to fund on-going costs. Despite significant levels of overspend in 2024/25 and unprecedented levels of growth in 2025/26, the 2025/26 Revenue budget has been balanced. However there are some significant one off grants which has yet to be confirmed by Central Government whether they will be maintained at the same levels in future years Key issues for members include the following:

- Can the Council set a balanced budget for ongoing expenditure with no contribution from reserves for 2026/27 onwards?
- Can the Council re-affirm the key principles of the financial strategy which will be refreshed and revised (if necessary) , as set out in paragraph 167 of Annex 1, in order to address current risks and uncertainties?

137. The current key principles that guide the financial strategy are set out below:

- To maintain a balanced budget position, and to set a medium-term financial plan which is prudent, affordable and sustainable demonstrating how the financial resilience (performance and position) will be maintained;
- Spending plans will be closely aligned with the Council's aims and objectives and ensuring deliverability taking into account the risks and uncertainties associated with those plans and projects;
- The Council will maintain a prudent level of reserves taking into account the risk posed by the fragile state of the economy due to geopolitical factors and the reliance on significant income from LLAL;
- Budgets will be continually reviewed and modified to ensure that resources are targeted on key objectives and deliver value for money.

138. The base budget has been prepared by budgeting for staffing at current establishment levels except for those impacted by the transformation programme, less the allowances for staff turnover. Inflation on supplies and services has only been added where departments made the case that it is required. The base budget for each department is shown in the attached budget papers, together with an overall summary.

139. The basis of determination of the general contingency provision of £6.9m is shown at Appendix B, arising from the consideration of the principal budget risks £3.9m and £3m to cover any specific risks including employer's National Insurance Contributions of £3.3m as explained in Appendix B.

Costs of Implementing Savings

140. 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 and earmarked reserves.

Budget Risk Management Strategy for 2025/26

141. Taking into account the sluggish recovery of the economy, rising cost of living and inflation and interest rates staying relatively higher for longer both the Council and more importantly on our subsidiary companies, the budget carries a high level of inherent and new risks and uncertainties. Therefore, it is essential that the Council and its subsidiary companies continue to develop and monitor its budget risk management strategy, alongside the budget itself. A budget risk management strategy is attached as Appendix B – the strategy is dependent on recommendations regarding the level of reserves and contingencies, as well as the actual budget set.

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

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

Capital Programme – Affordability Prudential Indicators

144. In considering the affordability of its capital plans, the Council is required to ensure that the total capital investment remains within sustainable limits, the impact on Council tax and Housing rental income. In considering affordability of its existing capital investment plans, the Council pays due regard to risk and uncertainty for the forthcoming year and future years. There are three key indicators of affordability which provide an indication of the impact of the capital investment on the Council's overall finances:

- The ratio of financing costs to net revenue stream – this identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.
- The incremental impact of capital investment decisions on the Council tax Band D – this identifies the revenue costs based in the budget associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans.
- The incremental impact of capital investment decisions on housing rent levels – identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, with regards to the impact on weekly rent levels.

145. Calculations of these indicators are included in the Treasury Management and Annual Investment Strategy reported separately to this meeting.

Minimum Revenue Position (MRP)

146. The financing costs of borrowing and capital financing arrangements are based on the interest cost of borrowing, plus a 'minimum revenue provision' used in place of depreciation/principal repayments for local authority tax-setting purposes.

147. Statutory guidance requires each local authority to prepare a statement of policy setting out how it will make a prudent Minimum Revenue Provision (MRP) for the next financial year. The policy is included in the treasury management and annual investment strategy. As a result of a significant increase in the level of borrowing required to fund the capital programme, the MRP provision and debt servicing is expected to increase by £6.5m when compared to 2024/25, assuming the current MRP policy continues. A significant part of this (£2.25m) relates to invest to save schemes which will generate savings to cover the additional costs.

Scale of Charges

148. The annual charge for garden waste collection was increased with effect from 1st November 2024 following approval by the Executive. Similarly, the charges for parking were increased with effect from 1st January 2025 following approval by the

Executive. The charges for 2025/26 are submitted for approval by Executive on 13 January 2025, Administration & Regulation Committee on 14 January 2025 and Development Management Committee on 22 January 2025, for implementation from 1 April. Some additional charges may also be approved as part of the budget, also for 1st April implementation.

Reserves & Provisions

149. Council sets aside specific amounts as reserves to finance future expenditure and to cover contingencies (usable reserves).

150. The Local Government Act 2003 requires the Chief Finance Officer's views on the necessary level of reserves to be reported to full Council as part of the budget process. The Chartered Institute of Public Finance and Accountancy (CIPFA) have added to this by recommending:

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

151. CIPFA's guidance note on local authority reserves and balances sets out the issues that need to be taken into account in order to assess the adequacy of the unallocated general reserves. Essentially this involves looking at the strategic, operational and financial risks facing the authority, the budget assumptions, including the treatment of demand-led pressures, and the authority's financial standing and management. This therefore involves a very wide-ranging assessment. Particularly important areas are the Council's budget monitoring processes, the risk register, the budget risk management strategy, the impact of higher inflation and interest rates, the impact of the Cost-of-Living Crisis on debt levels and income from Sales, Fees and Charges, exposure of the subsidiary companies linked with the aftermath of the pandemic and their capital programmes, and the treatment of growth and savings. An assessment is set out in Appendix B.

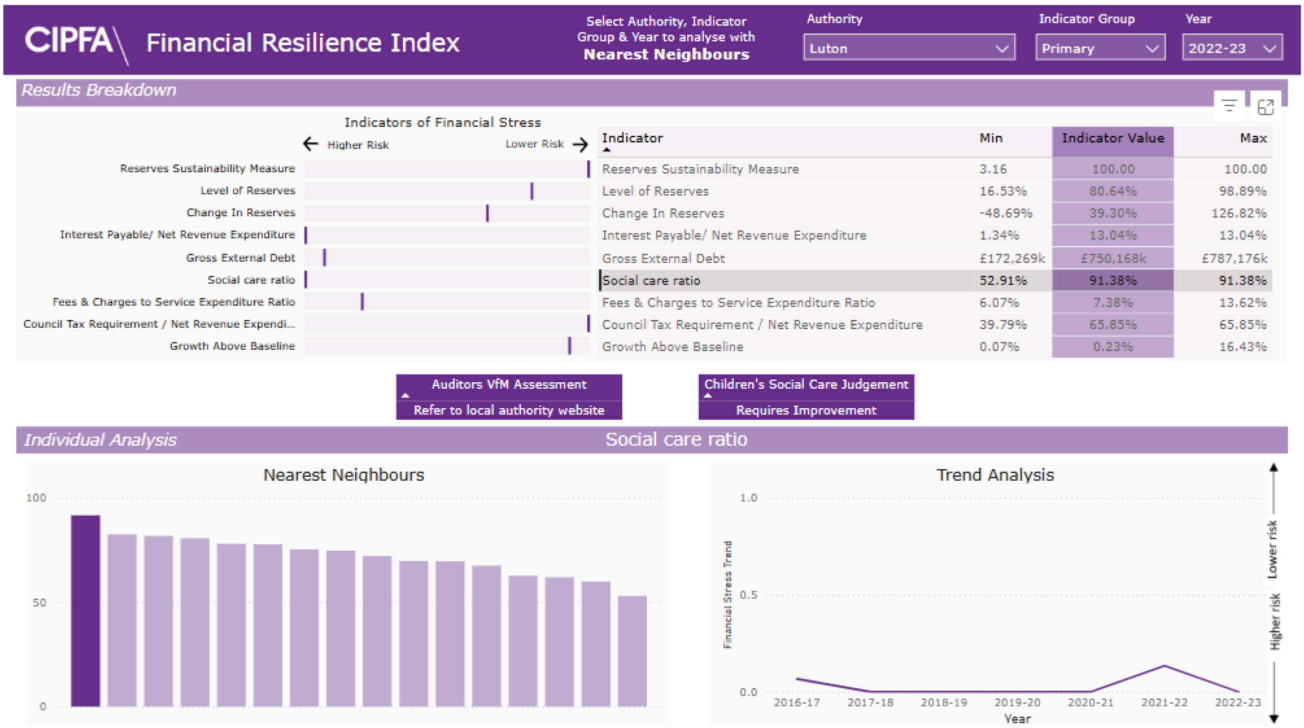
152. Showing in Appendix F is a table showing a protocol for each reserve, setting out its purpose, how and when it can be used, and procedures for management and control. Also included in the table are estimated balances and estimates of the potential use of reserves in 2025/26. It is recommended that all the reserves continue to be reviewed annually as part of this budget report, in order to ensure continuing relevance and adequacy in relation to the Council's Risk Management Strategy. This review takes into account the Council's reliance on significant commercial income and any risk associated to those income levels.

Robustness of Budget Proposals

153. Section 25 of the Local Government Act 2003 requires the Statutory Section 151 Officer (the Service Director, Finance & Audit) gives advice to the Council on the levels of reserves held and the robustness of the estimates at the time the Council makes its decision on the budget proposals. This report will be presented to the Council as part of the Executive’s budget proposal.

CIPFA Resilience Index

154. The chart below shows the resilience index produced by CIPFA and also shows the risks associated in terms of affordability and sustainability of the high level of spend as a % of Net Revenue Expenditure. This level of spend is not sustainable in the medium to long term and the savings identified in prior years and 2025/26 have to be delivered in order to ensure that the Council delivers services with costs which are comparable to its statistical neighbours and delivers value for money. The Council need to have a robust demand and costs management to avoid further unsustainable levels of overspend in the future.



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	3.16	100.00	100.00
Level of Reserves	16.53%	80.64%	98.89%
Change In Reserves	-48.69%	39.30%	126.82%
Interest Payable/ Net Revenue Expenditure	1.34%	13.04%	13.04%
Gross External Debt	£172,269k	£750,168k	£787,176k
Social care ratio	52.91%	91.38%	91.38%
Fees & Charges to Service Expenditure Ratio	6.07%	7.38%	13.62%
Council Tax Requirement / Net Revenue Expenditure	39.79%	65.85%	65.85%
Growth Above Baseline	0.07%	0.23%	16.43%

155. This level of additional resources injected over the years in social care is also reflected in the CIPFA resilience Index which shows the Social Care Ratio (spend on Adult and Children Social Care as a percentage of Net Revenue Expenditure) is the highest at 91% (78% in 2017/18) among our statistical neighbours. It also shows at this rate of growth and taking into account the significant growth included in 2023/24 to 2025/26, the level of spend on Adult and Children Social Care and is not considered to be sustainable in the future. The gross external debt and interest payable are also under the high risks category. However this has to be viewed in the context of the loans advanced to subsidiary companies and the level on interest payable.

Housing Revenue Account Capital

156. The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the Council's housing stock, offset by tenant rents and service charges, leaseholder service charges and other income. The Council has a statutory responsibility to set a balanced HRA budget (i.e. all budgeted expenditure must be matched by the income).

157. The Council currently owns and manages approximately 7,587 homes. These include a mixture of houses and flats, both general needs and more specialist properties such as sheltered accommodation. The Council also provides some shared ownership properties.

158. Current Government policy introduced in February 2019 is to increase rent levels by CPI+1% CPI in September 2024 was 1.7% therefore the proposed rent increase is 2.7%.

159. Under the current Right to Buy (RTB) legislation, Local Authorities are able to retain the discounted receipts to spend on replacement housing provided they can sign up to an agreement with the Government that receipts generated by the additional sales would be used to fund replacement social stock on one-for-one (1-4-1) basis. The Council has signed the contract and has been accumulating these receipts.

160. Previous conditions set by the Government was that the level of receipts must constitute no more than 40% of the total amount spent on the provision of social housing while the remaining 60% must be funded by the other resources within HRA or other funds however on 30 October 2024, alongside the Autumn Budget the government announced new arrangements for the treatment of RTB receipts which includes:

- local authorities to use retained receipts to support 100% of expenditure on the new provision of housing
- local authorities to retain the Treasury share of RTB receipts for use under the agreement
- the Government introduced secondary legislation to return maximum discounts to their pre-2012 levels on 30 October 2024 with a commencement date of 21 November 2024. This Statutory Instrument also increases the cost floor period from 15 years to 30 years.

161. Government is consulting on further reform to Right to Buy which is due to close on 15 January 2025.

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HRA TABLES

162. Set out in the table below is the draft HRA capital programme for 2025/26 to 2029/30:

	2025.26	2026.27	2027.28	2028.29	2029.30	
	£000	£000	£000	£000	£000	Total
CAPITAL EXPENDITURE						0
Major Works & Improvements	12,440	10,281	10,281	10,281	10,281	53,564
Works to promote decarbonisation	300	300	300	300	300	1,500
Development Schemes	48,213	38,971	41,412	22,162	19,251	170,009
Other	6,841	4,500	4,500	4,500	2,500	22,841
Total Expenditure	67,794	54,052	56,493	37,243	32,332	247,914

163. Set out in the table below is how the HRA draft capital programme is proposed to be financed:

FINANCING	2025-26	2026-27	2027-28	2028-29	2029-30	Total
External Borrowing	28,172	20,146	21,467	9,770	11,974	91,528
RTB Receipts	19,285	15,588	16,565	8,865	7,700	68,004
Retained Receipts	5,520	5,660	5,803	5,950		22,933
Major Repairs Reserve	12,740	10,581	10,581	10,581	10,581	55,064
Revenue Contributions	2,077	2,077	2,077	2,077	2,077	10,385
Total Financing	**67,794**	**54,052**	**56,493**	**37,243**	**32,332**	**247,914**

164. Delivery of the capital programme is dependent on affordability and it will be necessary to model the HRA 30 Year business plan with these items included in order to ensure that they are viable.

165. The draft HRA capital programme includes a range of new development sites as well as including capacity for the acquisition of land and properties to add to the HRA stock. To achieve our ambitions to add much needed affordable homes as set out in the HRA 30 year business plan, the HRA will need to add to borrowing – which is tested within the business plan. Alternative options to direct delivery include partnerships with local developers and social housing providers, and all options will be subject to scheme appraisal and a robust business case to demonstrate an adequate return on capital for the HRA and value for money.

166. Also included in the Major Works (BTS) provision are resources to fund carbon reduction initiatives on the housing stock, either directly or to enable grant and partnership working. This additional budget is targeted at solar PV, battery storage and triple glazing installations. This work is also subject to the Council wide strategy on electric charging points. Some Housing sites have already been identified and is subject to progression with a Provider who will install these.

Financial Strategy, Medium Term Financial Plan, Capital and Borrowing strategies

167. The existing strategy is set out in Appendix C but it is proposed (if necessary) to revise both it and the capital strategy in light of the next Spending Review – three year settlements, fair funding review and business rates reforms.