Department for Levelling Up, Housing and Communities

Local Government Finance Review – LUTON BOROUGH COUNCIL

December 2021

Executive Summary

This report provides our assessment of the Luton Borough Council's (LBC) current financial position including how successfully the authority has reduced its former reliance on income from London Luton Airport (the airport), the deliverability of its savings plans, its efficiency in delivering services under financial pressure, the state of the authority's reserves, and its financial management and capacity. It also considers the financial resilience of the Council in particular by the examination of its medium-term financial plan and transformation activity and the scope for raising additional monies through capital receipts from asset sales.

We have reported in detail separately on the financial and governance issues arising from the relationship between LBC and its airport owning subsidiary (London Luton Airport Limited – LLAL). This report considers these issues only from the position of their impact on the Council's finances. Our key findings are summarised below.

Key findings

- The key pandemic related financial pressure on Luton's general fund revenue budget has been the drop in its income from its airport-owing subsidiary as a result of the collapse in air travel during lockdown. The fall in income from loss of dividends from its subsidiary represents more than 28% of Luton's annual core spending power. By April 2022 LBC will have lost planned dividend income of more than £49m.
- The Council recognised the need to address this threat to achieving a balanced budget relatively early (July 2020) passing an emergency budget and taking a number of steps to prevent the threat through a mixture of savings, use of reserves and potential capitalisation.
- The extent to which the Authority will need to draw on the agreed £35m (2020/21) and applied for £15m (2021/22) capitalisation directions is still to be decided as the level of stabilisation funding the Authority requires to inject into its airport subsidiary and the extent of delivery of savings becomes clearer over the coming weeks/months and the parties have agreed a settlement agreement around force majeure and special force majeure. The Authority has earmarked monies to pay the cost of the capitalisations from the additional interest payments it expects from its subsidiary as a result of the stabilisation package.
- Whilst the Council drew temporarily on its funding equalisation reserve to help balance the budget, the Council's general reserve has not been used to balance the revenue budget and the position on the general reserve has continued to remain strong (9% of the net budget) compared to comparable authorities whilst levels of specific reserves have been increased to reflect continuing uncertainty using one-off unexpected gains such as through PFI refinancing.
- The Council's medium term financial plan has removed dependence on dividend income from its airport subsidiary and no dividend is assumed in base budgets up until the end of 2024/25. However, debenture and rental income continues to be built into the baseline budgets whilst the subsidiary continues to be in a position to make these payments to the Council.
- Luton is funding a stabilisation plan for the airport to cover any risks associated with the fluctuations in passenger numbers via the injection of additional preference share finance into its subsidiary, estimated in August 2021 at £20m. It is therefore seeking as

far as possible to solve the financial issues at the airport through capital injection. It has built the additional interest payments for this borrowing required into its future base budget. These payments are more than covered (generating a modest margin on loans) by the receipt of interest from the airport subsidiary.

- The Authority has earmarked £2m per year from the additional debenture interest that will be generated by its lending to the airport subsidiary as part of the stabilisation package to pay the additional interest and capital cost of £1m to £2m per year of the capitalisation directives.
- LBC's auditors have not yet issued their opinion on the Authority's 2018/19 and 2019/20 accounts. They require additional assurances on 'going concern' and post-balance sheet events in regard to the level of exposure the Council expects to take on through its airport subsidiary stabilisation package, the recoverability of the debenture loans issued by the Council, whether aspects of spend on airport access and other improvements can be treated as adding capital value and the scale of borrowing relative to the overall value of ownership of the airport to the Council. The Authority is still in the process of providing information to their auditors. It will be important that Luton follow proper accounting practice and make appropriate provisions should any doubts emerge in these areas.
- The Council has accepted the need for stronger governance over its commercial operations through establishment of a shareholder interest board with appropriate expertise and independence and at the time of writing, proposals are being tabled at Council meetings in mid-August 2021.
- The Council's airport subsidiary is currently donating £7 million per year to third sector bodies delivering non-statutory but key services including early intervention and prevention services and cultural and leisure services. If in future years the airport subsidiary is unable to make these payments, this may add additional financial pressure on the authority and call in the short term on the reserves.
- Achieving the balanced current budget and MTFP depend heavily on savings. As part of its emergency budget the services planned to deliver £21m of savings over 20/21 and 21/22 and it is assumed savings will cover a further gap of £7.5m in funding to 23/24.
- The gross savings targets are supported by short-term contingencies to phase the delivery of each year's programme over a two-year period. However, these contingencies currently cover some 65% (£5.5m) of expected savings. Use of contingency in this way may reduce short-term motivation to deliver and it will be important that contingencies are not used indefinitely or in the longer-term to mask shortfalls in delivering sustained savings to baseline budgets.
- The Council has delivered savings of £38 million since 2019/20 but some 22% of savings planned in the three financial years since 2019/20 (£8.4m) have not yet been delivered and almost £4m of this dates from the financial year before last.
- The savings shortfall represents some 70% of the current (Q1 2021) gross total service pressures on the Council's general fund budget.
- The Authority is actively tracking delivery of the savings programme. The tracker currently shows a red or amber risk rating for some 22 out of 28 savings projects (but only four are red). Some of these projects will be rated in this way because savings will be delivered later than planned, rather than because the savings will never be delivered. Items on the savings tracker with an amber risk rating will be accommodated as planned through the Equalisation Risk Reserve. Whilst creating a level of contingency within the overall annual budget is prudent, we do question whether this creates the right cultural behaviours.

- The Council has achieved some considerable savings and efficiencies in the current savings round and made some difficult decisions. These include a senior management reorganisation that realised £0.5m per annum. It has also started to charge for its green waste collection.
- However, some of the largest potential unachieved individual savings involve decisions on projects or schemes that the Authority has found difficult to take and which some elected members hesitate to implement such as the £1.6m rationalisation of its community cultural and leisure estate. The Authority is considering community asset transfer for some sites and the work required to bring these proposals to the Council's Cabinet are developing.
- The Council has rationalised a significant number of assets in recent years, but this has tended to focus on certain building types (namely office portfolio, Children's, and Adults).
- The Property and Facilities Management services have a clear asset strategy and plan for delivering the strategy. However, they hold a larger than needed number of accommodation and operational sites and have on occasion struggled with implementing some rationalisation projects due to lack of support by some members. At the same time their capital programme has not always reflected the asset related capital bids.
- Capital spend on the estate has not kept pace with requirements and as the condition of assets has deteriorated resulting in higher revenue cots to maintain them.
- The Authority has a mature corporate risk management strategy and supporting monitoring. It has identified the key risks as being (i) not achieving the savings proposals, (ii) the potential costs of implementing savings turning out to be greater than estimated and (iii) spend on social care and homelessness exceed their service budgets.
- Service leads told us that achieving the budgeted savings will become increasingly difficult without some service reengineering, investment and additional senior leadership capacity.
- The CIPFA resilience index highlights that pre-pandemic Luton had a slightly higher per head total service spend (£1.72k compared to average of £1.51k) with the higher spending concentrated on adult and children's social care, housing, environmental and regulatory services compared with its statistical neighbours, and these are areas for the authority to consider further rationalisation.
- The Council has planned actions to contain some of the pressures on budgets which in previous years have been a cause of financial pressure, including adult social care, families and homelessness. Nevertheless, risks continue with additional demand associated with the pandemic likely to add pressure.
- Since June 2020 the senior leadership team have started to develop their thinking on a new target operating model for the Authority. They have developed design principles and acknowledged the need to identify new approaches to help achieve their aims but there is a great deal of work still to do to develop a shared view of the implications for changes in the ways of doing things and how they are to be achieved. We also recognise that the significant work (and the draw on existing resources) may be under-estimated.
- There is a considerable amount of change activity within the Council driven by the emergency budget, new ways of working as a result of the pandemic and the new strategic plan. Some live projects are being drawn together with target operating model development and other proposed transformational projects into a "Future Ready" high level plan.
- There is a £9.5m reserve for invest to save projects and we were told there was a £1m investment budget this year to develop further "Future Ready" projects. But this is still work in progress and there is a great deal of work to be done to develop costs and benefits

realisation plans, prioritise and integrate the costs (both capital and revenue) and savings generated into the MTFP.

- We found strong officer understanding, leadership and grip of the issues facing the Authority and recognition of the need to take the actions taken amongst those members to whom we spoke.
- In common with other local authorities Luton finds it difficult to recruit qualified staff within its Finance department. The Director of Finance Section 151 officer is highly experienced and knowledgeable across the range of financial issues facing the Authority. However, he is stretched and has not been supported by a deputy for more than 15 months. This works against shared financial understanding and leadership across the Authority. There is scope to improve the Finance function’s analytical and modelling capacity as well the commercial expertise available within the Authority.
- A reorganisation of corporate level leadership has contributed savings but the shrinkage in capacity may impact on the delivery of transformation activity.

Key conclusions

The Council has been proactive in managing the unprecedented financial pressures that arose as a result of the loss of income from the commercial operations of its airport subsidiary and in making some hard decisions in order to realise savings.

Whilst there is still some fluidity in the situation as the Council finalises the exact terms of its stabilisation package for its airport subsidiary, Luton achieved financial stability by obtaining early member approval for an emergency budget and planning, applying for capitalisation directions and delivering additional savings to make up some of the shortfall in income. The Council’s leadership team is to be commended for taking such a proactive approach.

There is still risk attached to the delivery of the Medium-Term Financial Plan, not least in the light of the large shortfalls in savings to date and the yet to be identified further savings required to fund the spending gap to April 2024.

Long term financial sustainability depends on the local authority successfully realising more transformational change. Luton is developing its plans for more fundamental change and members will need to continue to support some of the hard decisions that will be involved in making further rationalisations and working in new ways.

In our experience, transformation change requires changes to the culture of the organisation and to the way of doing things. This takes significant amounts of senior management effort. Having the right transformation programme team in place (in the relative centre) is one thing and we acknowledge the work the Council has undertaken to date. However, developing a platform of longer-term sustainable change, supported by a culture change, across the organisation that can be measured, is a significant task requiring much from senior officers for a sustained period into the future. The Future Ready programme, building more capacity in Finance, along with other key interventions such as another review of what the Council could achieve through further property disposal will increase the Council’s ability to improve its underlying structural financial issues in the medium to longer term.

We set down below the key recommendations arising from our review. A separate set of more detailed recommendations covering capital receipts and asset management are contained at page 33.

Key recommendations

Number	Recommendation description	Timescale
Capitalisation, Commercial and Borrowing		
1	Prioritise corporate effort to reduce the current backlog £7m shortfall in savings.	*6 months*
2	Continue to actively monitor the savings programme, paying particular attention to those that require sustained corporate leadership and which should not be left to individual services to deliver such as the rationalisation of the community leisure and cultural estate and the transport review.	*6 months*
3	Plan to identify alternative savings to cover those that are risk rated red.	*3 months*
4	Undertake a formal benchmark analysis and review of service costs against Luton's local authority statistical neighbours to identify areas for potential further efficiency and improvement.	*6 months*
5	Develop a savings plan which aligns more closely with the MTFP, covering 2022/23 and identifies as early as possible the savings that are expected to contribute to filling the £8m spending gap in the MTFP.	*3 months*
6	Develop a MTFP covering 5 years which considers a range of funding scenarios (e.g. optimistic; realistic; pessimistic) and then is explicit about the assumptions made and how they will be stress tested	*3 months*
7	Review the policy of the use of service specific and general contingencies to cover savings shortfalls and whether they are working to delay decision-making.	*6 months*
8	Whilst recognising the need for an agile approach, identify more clearly the investment requirements behind the Future Ready Programme, the timing of the expected benefits including savings and develop clearer links with the MTFP showing more explicitly how Future Ready will contribute to the Authority's financial sustainability.	*6 months*
Governance and Oversight		
9	The Authority, as the sole owner and lender to the airport needs to further strengthen its governance around the airport.	*3 months*
10	Ensure the proposed shareholder group's terms of reference provide for the necessary oversight it requires to represent a shareholder's perspective as well as setting out the parameters, policies and boundaries that the Council, as shareholder has established for its subsidiary companies	*1 month*
11	Ensure the proposed Shareholder Board has sufficient and relevant commercial financial expertise and support to provide appropriate independent scrutiny and challenge of its subsidiaries	*3 months*
12	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	*1 month*

	accompanied by a full review and approval of the Annual Borrowing Strategy and the impact on prudential and treasury indicators.	
13	Prioritise the recruitment of a Deputy Director of Finance, Revenue and Benefits with the expectation of an appointment within the next two months and develop a formal training and succession plan to cover the risk of losing the experience of the current Service Director, Finance, Revenues and Benefits.	*3 months*
14	Review ways in which the capacity of the corporate leadership team can be increased so as to allow more impetus for transformation.	*3 months*
15	Strengthen the financial analysis and modelling capacity available to support the individual services as well as the Shareholder Board.	*3 months*
Assets		
16	Commission an independent review of the estate covering rationalisation opportunities including the revenue and maintenance issues as well as the implications of the capital programme. An independent review could facilitate the discussions with all stakeholders and help realise the rationalisation opportunities that have been identified.	*6 months*

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1.Purpose of this review

Introduction

The purpose of this report is:

- To provide an assessment of the Luton Borough Council's (LBC) financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that as a local authority that received Exceptional Financial Support from the Department in the financial years 2020/21 and has applied for further support for 2021/22, LBC has taken appropriate steps to improve their financial sustainability.
- To provide support to LBC in the form of recommendations and performance requirements to ensure they achieve this objective.

An additional review has been undertaken to understand and provide assurance on LBC's arrangements with its airport subsidiary. This report covers the relationship with the airport in as far as its impacts on the LBC's income, borrowing and financial sustainability in the short and medium terms.

Methods used to gather data

Evidence was collected by CIPFA with support of Peopletoo between 15 July 2021 and 2 August 2021involved the following methods:

- Semi-structured interviews. On-line interviews were conducted with key officers (including the CEO, Section 151 Officer, Corporate and relevant service delivery leads) the Leader of the Council and Chairs of the Finance Committee and Audit and Governance Committees and with external and internal audit. Details are at Appendix 1.
- Document review. The Council provided documents and working papers on key financial and non-financial issues with a particular focus on those related to budget setting and financial management and planning.
- Benchmarking. A comparison of Luton against other statistical neighbour Councils.

Analysis involved a triangulation of data from the different sources. Key information and conclusions have been discussed with the Chief Executive Officer and the Section 151 Officer.

Scope restrictions

This report is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's financial accounts.

We are reporting separately on the position in respect of LBC's relationship with the airport.

2.Background

Luton and its key challenges

The town is situated next to the M1 motorway and is just ten miles from the M25. Luton has three railway stations, providing access to Central London within 30 minutes, as well as direct journeys to the Midlands and the South Coast of England. Luton is also home to the UK's fifth largest airport, up until the pandemic providing flights to more than 70 destinations across Europe, the Middle East and North Africa for up to 18 million passengers per year.

Luton has an estimated population of 213,100 people and is as densely populated as many London boroughs. The estimated population of Luton has fallen slightly for three consecutive years, with around 1,800 less people living in the town than in 2016. Luton has one of the youngest populations in the country, with more than a third of residents being below the age of 25 and around a fifth below the age of 16.

Luton is a super-diverse town, with no single ethnic origin accounting for a majority of the population. Approximately 45% of the population are White British, with 30% of Asian ethnicity, 10% Black and 10% from other White backgrounds. Luton has many long-established diverse communities of Pakistani, Bangladeshi, Indian, African Caribbean and Irish origins.

The Centre for Cities has compared Luton to its five most similar European cities in size and industrial structure. Luton comes relatively high in its group on productivity (GVA per worker) but tends to rank at the bottom of many other indicators including employment and skills.

Prior to COVID-19 Luton's economy had been performing relatively well:

- A strong local economy worth £7.5 billion.
- GDP per head growing faster than national average.
- Employment had been growing, especially at the airport.

However, there were also considerable underlying challenges:

- 7th highest rate of child poverty in UK.
- Economic inactivity higher than national average.
- An estimated one in 5 jobs not paying living wage.
- Only 34% of Luton jobs management and professional compared to 46% nationally.

Analysis by the Centre for Cities found this year that the Luton economy was particularly vulnerable as a result of the pandemic. Luton has the 7th highest number of furloughed workers, 32,000 jobs at risk and the 8th highest claimant counts for cities and large towns in the UK. The Centre for Cities concluded that Luton was the second most vulnerable town economy post-Covid, in part due to its reliance on the airport and on vehicle manufacturing.

Luton Borough Council

Luton is one of the smaller unitary authorities, covering 40 km and created in 1997. The Council is made up of councillors from 19 wards. Luton operates a cabinet system formed from members of the majority Labour party. The Council has been led since 2007 by Hazel Simmons (OBE), who was previously Deputy leader and Chairs of Leisure and of Equalities.

Robin Porter took over as Chief Executive at the Council in May 2019. Prior to this he was Deputy Chief Executive and Corporate Director for Customer and Commercial Services and also lead for the Councils Airport Company LLAL. The Council re-organised its officer corporate leadership team in 2020 in response to the need to deliver savings. Service delivery is split across three corporate divisions each headed by a corporate director: Inclusive Economy; Children, Families and Education and Population Wellbeing. A further Corporate Director serves as Chief Executive Officer for London Luton Airport Ltd. This structure now aligns with the Council's corporate priorities. It is a member of the East of England Local Government Association.

Luton Council's priorities

In 2020, the Council agreed a new vision for Luton called "Luton 2040" which is an ambitious plan to transform a whole range of place and people-based aspects of the town. The vision reflects the impact on the town of the pandemic and seeks to develop a town built on fairness and social justice where no-one has to live in poverty, and all can thrive. This vision is underpinned by five strategic priorities:

- Securing a strong economic recovery from Covid-19, which protects jobs, incomes and businesses and enables us to build a more inclusive economy.
- Protecting the most disadvantaged in our town by prioritising services and interventions that focus on prevention, alleviate the impact of poverty and reduce health inequalities.
- Making Luton a child-friendly town, where our children and young people grow up feeling happy, healthy and secure, with a voice that matters and the opportunities they need to thrive.
- Becoming a greener and more sustainable town, to meet our long-term ambition to be carbon neutral and climate resilient by 2040.
- A strong and empowered community supporting fairness, equality and local pride and speaking with a powerful voice.

Luton funding base

The Council has a low tax-base. Most of the properties are in either band A or band B. As a result, each 1% increase in Council tax brings only £0.73m per year. The Council is currently ranked 52nd of all unitary councils (out of 57) in terms of average council tax per head of population. When compared to the average of its immediate neighbouring councils (Bedford, Central Bedfordshire and Milton Keynes) the council tax per population is substantially lower.

Luton has historically been relatively grant-dependent since it has a higher-than-average relative need, and a lower-than-average council tax income per dwelling. As a result, the old, needs-related grant system gave it above average levels of grant. Hence the Council has become more dependent on income from business rates and self- funding via its subsidiary companies, rents, charges and investment income.

In 2020/21 commercial returns, just from the airport, made up some 28% of the authority's revenue streams. This is equivalent of £506.32 precept on a Band D property – 33% higher than the current precept.

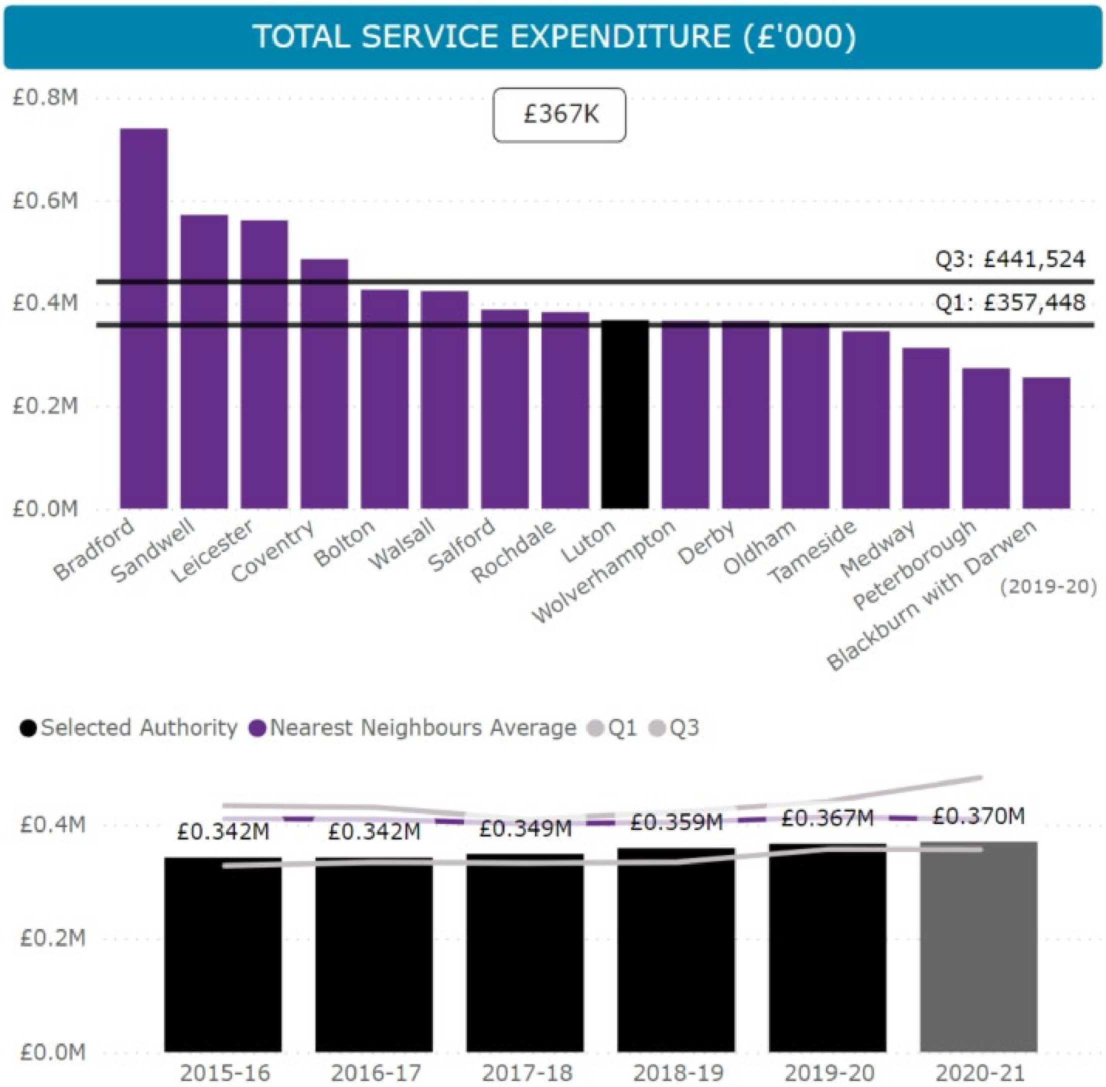
3.The current financial position

In this section we analyse LBC's current financial position. We consider its financial performance before the pandemic and the extent to which it was already under pressure. We then consider the factors that led to the capitalisation request and the steps the Council has taken to stabilise its financial position. These steps include primarily a savings programme and action to prevent financial pressures in areas of historic overspending. We also consider the position on the Authority's reserves and the affordability for the Council of the financial package required to stabilise the authority's Airport subsidiary.

Past financial performance

For 2019/20 the year prior to the pandemic spend the budgeted Luton total service expenditure (which also includes police, housing and fire and rescue services) was £367,000 (Figure 1). This puts it slightly above average compared to its near statistical neighbours.

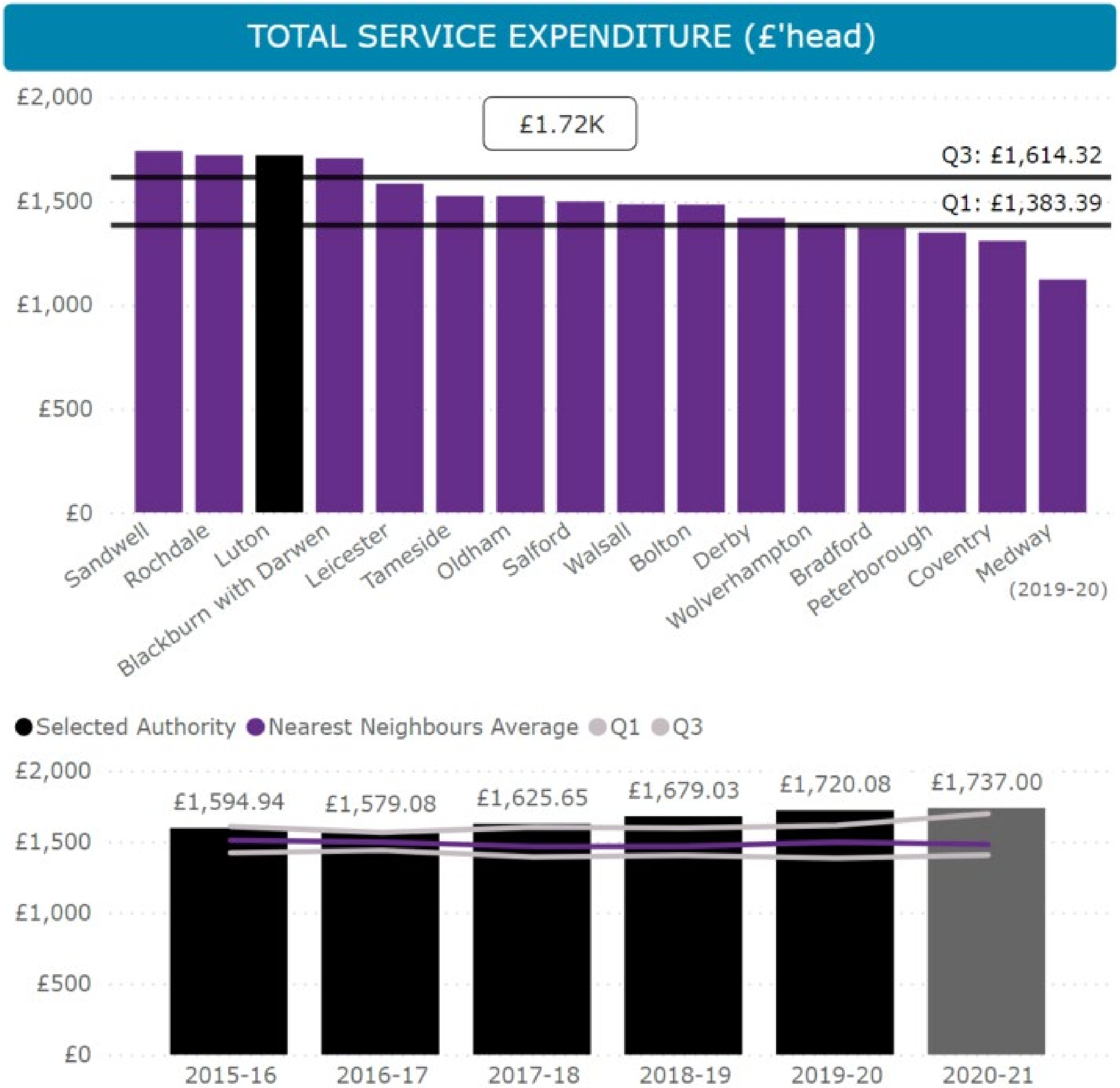
FIGURE 1 : TOTAL SERVICE EXPENDITURE AT LUTON



Its 2019/20 outturn was broadly in line with the budget. However, there were overspends of £4.7m in Children's and Families social care and £3.5m on the Homelessness budget including temporary accommodation (we examine how these shortfalls are being addressed at page 15). These were offset by savings on Treasury Management and the use of contingency. There have been longstanding pressures within the Council on temporary accommodation, property and construction and children's social care. However, we understand that the Council is now implementing a new strategy to reduce homelessness.

The CIPFA Resilience Index helps to highlight areas where the level of costs as a percentage of net revenue expenditure are high when compared with Luton's statistical neighbours. Its total service expenditure per head at £1,737 is relatively high (Figure 2).

FIGURE 2 : SERVICE EXPENDITURE BY HEAD LUTON



Contributing to this are higher per head spends on children's social care, housing, environmental and regulatory services. It has lower spend per head than its statistical neighbours on planning, public health and cultural and leisure services. The latter is in large part funded by its airport subsidiary.

The Council has a good track record over several years of setting a balanced budget. A clear policy was approved by the Council for both the 2020/21 and 2021/22 budgets to achieve a balanced budget and meet the requirements of the Local Government Finance Act 2002 and to set a medium-term financial plan demonstrating how that position would be maintained up until 2023/24.

Dependence on income from London Luton Airport

Before the pandemic Luton Borough Council had an income stream over a number of years that was dependent on the financial performance of its airport-holding subsidiary. This income takes at least three forms: dividends from its 100% ownership of the subsidiary, the net interest payments from the loans it makes from the subsidiary and other airport-related rental income collected by the subsidiary (e.g. income from commercial property as part of the airport's commercial real estate portfolio).

This income has grown significantly over time. In 2012/13 it was just £7.6m. By 2020/21 LBC was depending on £43.7m. This is equivalent to some 28% of LBC's core spending power. In addition, its airport subsidiary was making voluntary payments of circa £7m to £11m in the years pre-pandemic to third sector organisations within Luton delivering non-statutory but key cultural and other services. In the current financial year, these payments are forecast to have fallen to around £7m.

Emergency budget and capitalisation requests

Luton recognised the impact of Covid and the collapse in its airport income in June 2020 with an emergency budget approved by the Council in July 2020. The key pressures on the budget and the major changes in the amended budget at this stage are as shown in Figure 3.

FIGURE 3 : MAIN CHANGES TO SPENDING LINES AS A RESULT OF EMERGENCY BUDGET

Budget Change	**Cost or (Saving) (£m)**
Reduction in LLAL Dividend for 2020/21	16.0
COVID-19 loss of income – net, after Government reimbursement	3.5
COVID-19 additional spend – net, after Government reimbursement	2.0
Children's Services Ofsted improvement plan	1.7
Reduced revenue costs of Capital Programme	-1.0
Total Additional Net Costs	22.2
Savings and Use of Reserves	
Additional Savings Proposals 2020/21 total	-16.9
Use of one-off Reserves to balance budget	-5.3
Total of budget reductions and use of reserves	-22.2

So the Authority went into the pandemic with some usual financial pressure on Children's Services including the need to fund an Ofsted improvement plan and faced some additional pandemic-related costs that were not fully reimbursed by central government. These would have probably been manageable without outside assistance. However, the key gap in the budget was caused solely by the loss of the dividend income from its subsidiary.

Subsequent to the emergency budget it became apparent that the airport subsidiary would not be able to pay LBC the dividend outstanding for 2019/20 creating an additional outturn gap for 2019/20 of £19m. LBC applied for a potential capitalisation directive in July 2020 to cover £35m of revenue expenditure in 2020/21 and £14m 2021/22. The Council and the airport have agreed that future dividend payments will be suspended until it is assumed that passenger numbers return to pre-pandemic levels in 2024/25.

The capitalisation amounts requested were made at a time of considerable uncertainty about the scale of loss of income at the airport, the cost of stabilising the financial position of the airport subsidiary and the settlement of any Force Majeure negotiations with the operator, the likelihood of seeking approval for the savings outlined in the emergency budget and the extent to which the additional pandemic-related costs of local authorities would be covered by central government.

Currently the Authority consider they will need to draw on £15m of the capitalisation agreed for 2020/21. They consider they may need to draw on the £14m agreed for 2021/22, depending on the final shape of the agreement between the airport subsidiary and the airport operator (these negotiations will not be completed until circa September 2021). If the capitalisation for 2021/22 is not approved, the local authority will have to call on reserves and make further revenue provisions over the next few years to replenish those reserves. This will add further to the financial pressures arising from the need to make savings during this period. The Council has a balanced budget for 2021/22 and unless there are significant adverse fluctuations in the LLAL finances, as result of COVID-19, then the Council does not anticipate drawing down the £14m capitalisation. However, based on the latest COVID-19 risk assessment, the Council would like this facility to remain available should it be required.

Need for savings to balance the budget

Over the eight years leading up to the pandemic Luton had made £156m of savings. The breakdown by category is show in Figure 4 below.

FIGURE 4 BREAKDOWN OF PREVIOUS SAVINGS BY CATEGORY

Savings Category	**£m**
Process & efficiency improvements	47.002
Trading & Commercial	32.056
Changes to organisational structures and responsibilities	26.768
Procurement & Commissioning efficiencies	25.904
System/service redesign to customers	24.827
Total savings	**156.557**

Luton had budgeted for total savings of £16m in its 2019/20 budget and entered 2020/21 with a shortfall of £3.9m. In its July 2020 emergency budget, it committed to finding an additional £16.9m savings to balance the 2020/21 budget and £5.9m to be delivered in 2021/22. These savings were planned to be delivered over two years and with any gap to be funded by drawdown from the funding equalisation reserve up to £10.372m in 2020/21 and £3.047m in 2021/22.

The Q1 2021/22 position on the achievement of these planned savings is shown in figure 5 below. It shows that c80% of forecast savings have been achieved. However the programme is so ambitious that this leaves forecast shortfalls in gross savings of £8.4m over the three-year period. Use of a delivery contingency reduces the net shortfall to less than £3m. This scale of contingency needs to be phased out as soon as possible.

FIGURE 5 : SAVINGS PLANNED AND DELIVERED

	2019/20	2020/21	2021/22	Total
Total Savings Programme	£15.817m	£16.899m	£5.889m	£38.605m
Delivered to Date	£11.818m	£15.328m	£3.041m	£30.151m
Gross Forecast Shortfalls Q1	**£3.999m**	**£1.571m**	**£2.848m**	**£8.418m**
Use of Delivery Contingency	-£1.971m	-£1.265m	-£2.276m	-£5.512m
Net Impact on Q1 Forecast	**£2.028m**	**£0.306**	**£0.572m**	**£2.906m**

Some £13.4m worth of specific projects are being monitored and tracked. A significant number of these are forecasting shortfalls in savings delivery. Key material savings initiatives that are risk rated red or amber on the authority savings tracker include:

- £1.6m from rationalising the Community, Leisure and Cultural estate.
- £0.75 from review of in-house transport.
- £ 0.9m from increase in rent collection rates.

Some of the planned savings appear to have been unrealistic to include in the first place. This includes a reduction in Highways staffing targets which are now assessed to have threatened delivery of statutory responsibilities. Indeed, at the time of writing we have been told that the Council is planning to re-invest in these services to improve its streetscape services.

Some of the savings on the tracker must also remain in doubt until the local economy returns to its former strength. These include business rate enforcement savings (£0.17m) and additional income from parking (£0.115m).

Adequacy of actions to address specific service budget pressures

In this section we consider the underlying pressures in those council services which have traditionally spent more than their budgets, the actions that have been taken to address potential overspending and the risks if any they represent to the current financial position. These services are Children’s Services, Adult Social Care and homelessness.

Children Services

To address the long-term children-related budget pressures in Luton a detailed programme-based approach has been developed between Children, Families & Education. The Luton Families programme is bringing together all the children's services in a recurrent deficit position and through a contribution of invest to save projects is planning to reduce the deficit. The placement and commissioning workstream has reduced expenditure in 2020/21, fostering and edge of care and workforce related workstreams along with the newly created social work academy are revising plans to deliver further cost avoidance in 2021/22 and future years.

We were told that the new Edge of Care service is supporting 12 young people at present and that good progress has been made in fostering with the key aim to reduce the number of residential placements. A sufficiency strategy has been developed supported with a real emphasis on building a robust approach to contextual safeguarding.

However, population projections indicate a continuous reduction in under 10s, but the 10-19 age group peak in 2025/ 2030 before decreasing which may create a further pressure in the medium term.

The emergency budget last summer allocated savings of £2m to Children and Families. As part of the emergency budget plans were put in place to close children centres and create integrated Hubs. This has delivered £1.2m in year savings although some monies have been reinvested into the hubs. The authority is confident in achieving the remaining required savings in this financial year.

The key risks are:

- The Service is putting in place strategies to reduce placement expenditure around Edge of Care and increasing in house fostering. However, population projections show in the medium term a spike in the number of 10–19-year-olds, which in the short to medium term could put the service under continued pressure.

- There is always a risk that expenditure will increase when a service is rated as inadequate, pressures come from challenges recruiting quality social workers, over reliance on agency and poor practice in placement planning.

- If the Council/Service can get these things under control they have a chance to manage within their budget but suggest this is early days. These buildings blocks are being put in place, but it is too early to tell how robust these building blocks are and if they will stand up to further pressure.

Adult social services, temporary accommodation and homelessness

Cumulative forecast financial growth pressure in Adult Social Care is forecast at £3.9m in 2022/23, £5.6m in 2023/24 and £7.6m in 2024/25. In the past the service has managed pressure within the Improved Better Care Fund and precept monies but is concerned that this may not be enough in the future as the Service runs out of areas where savings can be delivered. The key areas of concern and risks to future financial sustainability are demand for Mental Health services, impacts of poor post-Covid health and the resilience of the local provider market.

The Service was required to make savings of £4.5m over 2 years as part of the emergency budget. ASC is on track to deliver some of this saving with £1.7m coming through a restructure of provider services. However, two areas with identified savings - debtors and income and transport are not on track. We were told that some of the activity required to deliver these savings fell outside the remit of the service and there was a case for responsibility for delivery of the Transport savings sitting corporately. The project is currently subject to the review of the Council wider Transport offer.

£1m of savings could be at risk if the Council has to meet the cost of “discharge to assess”. Health has voiced that this should be met from the IBCF (£7.3m 2021/22), but these monies have all been allocated and are mainly funding core services.

A project to reduce overspend on the temporary accommodation budget by releasing savings of £2m per annum by reducing the number of households in temporary accommodation has had some effect with the budget currently forecast to be underspent by £1.4m. A project to increase the rent collection rate dating from 2019/20 and recover outstanding sums is covered by contingency of £0.4m. Debt has in fact increased and collection rate is 85.6% compared to 95% target due in large part to the impacts of the pandemic.

The homelessness budget was over budget by more than £2m in 2019/20 and 202/21. The Council believe the delivery of the Housing and Homelessness strategy is key to managing the increase in demand in homelessness costs. More than 84% of the Council residential properties are at band C or below. There is a lack of properties in Luton designed for larger families.

The Council’s capital programme includes borrowings to finance the acquisition of residential properties which the council expects will help to reduce the overspend over time. The Council will aim to encourage the development of properties which are valued at band D and above in order to meet the growing demand and also to ensure that the mix of properties is fairly balanced. The Council has been acquiring properties in order to meet the demand for such properties and hence reduce the level of overspend in the homelessness budget.

The key risk in this area is that Adult Social Care service is a volatile area with unpredictable demand and remains a risk to stability in 2021/22 with additional demand associated with the pandemic likely to add pressure.

Borrowing and capital programme affordability

Prior to the pandemic and the need to put together a stabilisation package at the airport, Luton already had higher levels of external debt than many of its statistical neighbours. (Although these neighbours do not own an airport which is regarded as part of national transport infrastructure.) It was borrowing about half a billion pounds. Figure 6 below shows that the cover ratio (the level of borrowing compared to the reserves of the Authority) showed a higher risk than most of its statistical neighbours and that that risk had risen between 2017/18 and 2019/20.

Figure 6 : Ratio of External Debt to Reserves

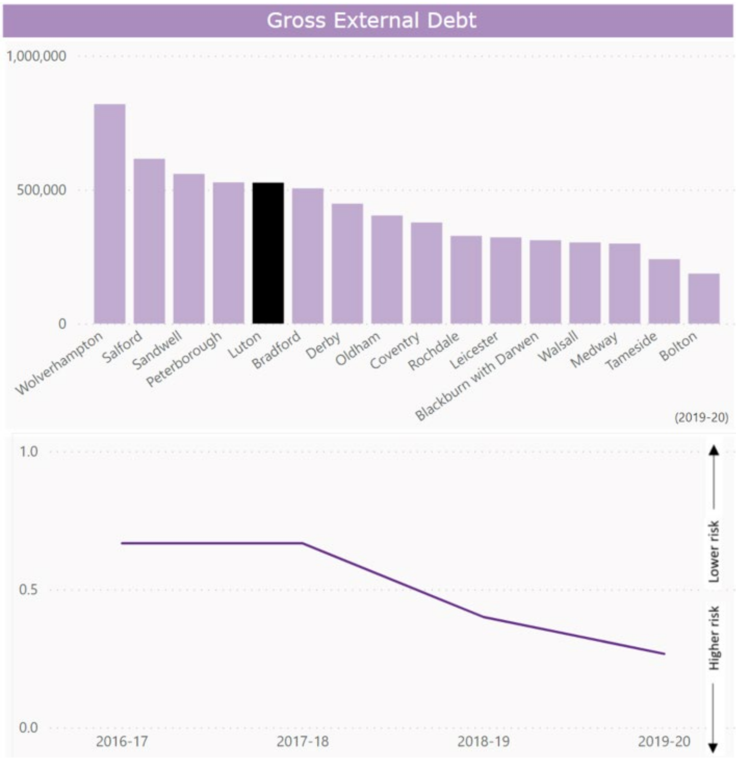


Figure 7 shows the Council planned a 31% increase in the level of borrowing last financial year to reach £0.658 billion. It is planned to rise further in 2021/22 to £0.775bn. Gross interest on borrowing is also planned to rise from £10.3m pa to £14.28m between 2019/20 and 2020/21. Interest paid by the airport subsidiary to the council grows from £16m to £31.2m

Figure 7 : Rise in Borrowing 2020/21

Year End Resources	01/04/2020 Actual £'000	31/12/2020 Estimate £'000	31/03/2021 Estimate £'000
Total Investments*	**43,480**	**41,789**	**30,000**
Borrowing			
Short Term Borrowing (Other LAs)	70,000	99,000	72,000
PWLB / EIB	381,696	381,696	537,696
Money Market (including LOBOs)	48,600	48,600	48,600
Total Borrowing (31st March position)	**500,296**	**577,896**	**658,296**

*Actual investment figures will differ from the accounts because the table excludes investments in subsidiaries

This rise in borrowing is accounted for by the heavy schedule of capital expenditure (£358m over a three-year period) primarily to fund the London Luton Direct Air to Rail Transport (DART), Bartlett Square, the Airport Planning Strategy, Foxhall Homes but also most substantively to cover the potential loan and investment in shares at the airport as part of the stabilisation and recovery plan.

All the borrowing is externally financed and has no direct call on the general revenue fund account. And whilst the interest the local authority pays on the borrowing is a call on the account, these financing costs are more than offset by the interest earned on the debenture loans and rental income which are calculated at more than £100m over the next three years.

Luton operates a minimum revenue provision (MRP) policy which requires it to create provision for debt to be repaid for new borrowing using the annuity method based on the expected life of the assets being borrowed.

However, where the Council make secured capital loans such as those being made to the airport subsidiary, it does not charge MRP. This is because the stated aim of the MRP is to make prudent provision, which is to ensure that debt is repaid over a period broadly commensurate with the period over which the capital expenditure provides benefits. If the loan is properly secured and repayable over or at the end of the period in which it provides benefits, then the loan repayment ensures that the debt is repaid, and MRP would double-up the provision.

LBC's auditors have not yet issued their opinion on the Authority's 2018/19, 2019/20 and 2020/21 accounts. They require additional assurances on going concern and post-balance sheet events in regard to the level of exposure the Council expects to take on through its airport subsidiary stabilisation package, the recoverability of the debenture loans issued by the council, whether aspects of spend on airport access and other improvements can be treated as adding capital value and the scale of borrowing relative to the overall value of ownership of the airport to the Council. The Authority is still in the process of providing further information to their auditors as they finalise the stabilisation package and settlement of Force Majeure.

It is important that Luton follow proper accounting practice and make an appropriate provision should any doubt emerge about whether the loans to the airport subsidiary are properly secured.

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, gearing and risk, officers should consider whether 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, including scrutiny of the impact on movements of the prudential and treasury indicators. Such revisions should also take into account any potential increases in the airport's capital schemes including DCO and DART.

Use of reserves

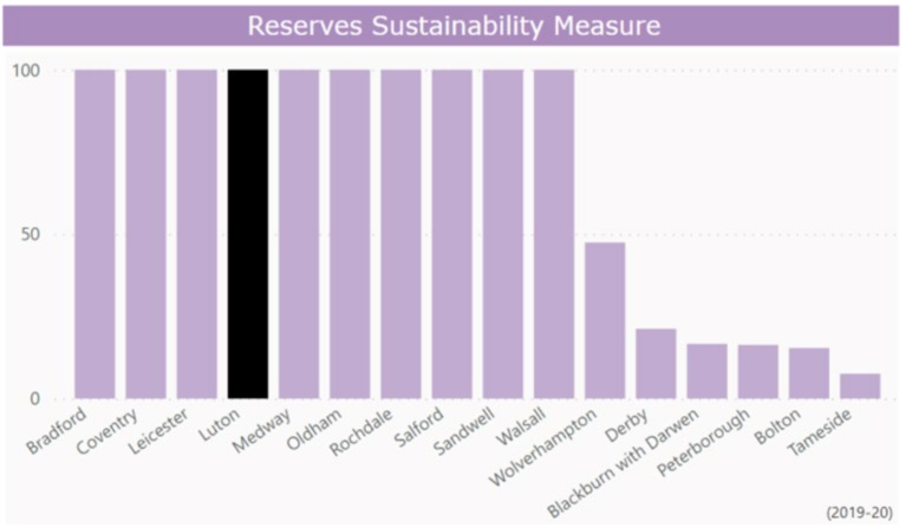
The Authority has set its minimum level for the general reserve in line with the CIPFA code of practice as shown in Figure 8 over.

FIGURE 8 RISK ASSESSMENT USED TO DETERMINE LEVEL OF GENERAL RESERVE

Risk Assessment of Reserves	Probability	Amount p.a.	Reserve
General Reserve inc. future liabilities		£	£
Risk of call on reserves from overspend in excess of contingency	0.1 p.a. for 5 years	500,000	2,500,000
Collection Fund risks – appeals/demolitions/council tax support caseload/collection risks on the introduction of universal credit	0.1 p.a. for 5 years	5,000,000	2,500,000
Minimum working capital requirement in view of the range of financial risks facing the Council			5,000,000
Contingency for Revenue funding loss, loss of trading contracts and potential costs arising from any unforeseen events			4,000,000
Total			**14,000,000**

The CIPFA Reserves Sustainability Measure provides a measure of how long (in years) it will take for a council to completely denude its reserves, if they continue to use reserves at the same rate as in the previous three years. Figure 9 shows that unlike some of its statistical neighbours this is not a risk at Luton.

FIGURE 9 RESERVES SUSTAINABILITY INDEX LUTON COMPARED TO OTHER LOCAL AUTHORITIES 2019-20



The Authority has a number of earmarked reserves. The balances as at 31/03/21 are shown in Figure 10. The Council’s level of earmarked reserves, as reported in the CIPFA Resilience Index, is positioned slightly below average when compared with other unitary authorities.

FIGURE 10 : RESERVES AT LUTON AS AT MARCH 2021

Reserves : General and Earmarked	Bal. as at 31 Mar 2021
	£000
Butterfield Profit Share Reserve	1,195
Cremator Mercury Emissions Reserve	652
Funding Equalisation Reserve	14,880
General Reserve	14,021
Insurance Reserve	3,228
Interest Equalisation Reserve	4,853
Invest to Save Reserve	9,450
Investment Reserve	221
Local Partnership	10
Luton Investment Framework Reserve	1,137
Major Projects Reserve	8,362
Neighbourhood Governance Reserve	403
Pensions Reserve	6,874
Planning reserve	62
Property and Commercialisation Sinking Fund Reserve	4,720
Public Health Reserve	1,546
Reorganisation Reserve (Monitoring Balances)	1,479
Service Provision reserve	6,073
Specific Risk Management reserve	2,970
Welfare Reform & Recession Reserve	1,471
Grand Total	**83,609**

Luton has used its funding equalisation reserve to balance its revenue account during 2020/21 but has earmarked funds to replenish it. Figure 11 shows that Luton has taken steps to increase its earmarked reserves rather than deplete them since the pandemic to reflect the continuing uncertainty and risk.

FIGURE 11

Reserves Position over last 5 years

	2016/17	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M	£M
General Fund Balance	14.021	14.021	14.021	14.021	14.021
Earmarked reserves	46.05	46.843	56.154	64.827	69.588
Total	**60.071**	**60.864**	**70.175**	**78.848**	**83.609**

4.Financial resilience

In this section we consider two of the key issues that will impact on longer-term financial resilience at the Council. The first is the robustness of the medium-term financial plan and the second the maturity of the Council's plans to achieve more transformational change and structural cost reduction.

Robustness of the Medium-Term Financial Plan

Luton's current medium term financial plan only covers the two future financial years to April 2024. Luton argues that it is difficult to forecast beyond that time frame in the light of the pandemic and the uncertainty arising from the Fair Funding Review and the next Spending Review.

The general principles underpinning the strategy are:

- To maintain a balanced budget position which is robust, affordable and sustainable without the ongoing use of reserves, and as part of the budget process, to set a medium-term financial plan demonstrating how that position will be maintained.
- Any use of reserves in the short-term has to be replenish over the medium term.
- Spending plans will be aligned with the Council's aims and objectives and also the Luton 2040 vision.
- The Council will maintain a prudent level of reserves on an ongoing basis. The level of reserves have to be increased to reflect the change in the level of risks as the Council embarks on expanding its commercial activities.
- Revenue and Capital budgets will be continually reviewed and modified where necessary to ensure that resources are used effectively and targeted to achieve key objectives and offers value for money.

Figure 12 over shows the three-year summary of the Authority's net budget before income and grants. The Authority has budgeted for a net growth (£11.2m) in service budgets. This is in line with reasonable assumptions about inflation and other pressures. The MTFP assumes the net impact of underlying business rate growth is in line with inflation, the equalisation method protects the Council against loss from the new system and the top-up and safety net arrangement continue. (Note the line for income from LLAL in Figure 12 should not reference dividends as these are not being built into base budgets during the period covered.)

FIGURE 12

MTFP Three Year Summary	2020/21	2021/22	2022/23	2023/24
Net Service budgets inc capital financing costs	**178.96**	**184.48**	**182.77**	**182.29**
Increases in costs and net growth - unavoidable	5.52	0.55	9.92	8.85
Net service costs	**184.48**	**185.03**	**192.68**	**191.15**
Interest payable & Treasury Management	15.03	16.93	19.23	19.74
Capital Financing costs and MRP	-15.02	-14.50	-12.54	-11.09
Specific grants S31 and NHB	-5.70	-8.14	-4.98	-4.64
Reserves and Contingency	-2.88	8.13	6.46	5.60
Total before Income and Grants	**175.90**	**187.44**	**200.86**	**200.75**
Income from LLAL - dividend, interest and rent	-26.22	-30.98	-31.57	-34.07
Additional Income other inc residential investment	-1.01	-0.97	-0.97	-0.97
Total after Income and before Grants	**148.67**	**155.50**	**168.32**	**165.72**

Figure 13 shows the how the authority intends to fund net expenditure after income and grants. From 2021/22 no dividend form LLAL has been included in LBC's MTFP.

FIGURE 13

MTFP Three Year Summary	2020/21	2021/22	2022/23	2023/24
Net Expenditure	**148.67**	**155.50**	**168.32**	**165.72**
Funding:				
RSG - assumed replaced by B Rates Top Up	-10.70	-10.93	-10.93	-10.93
Business rates	-32.61	-31.99	-33.61	-34.28
Business rates Top Up inc previous RSG	-14.56	-14.51	-14.80	-15.09
Business rates Growth	0.00	0.00	0.00	0.00
Adult Social care - Precepts	-6.94	-9.14	-11.37	-13.60
Improved Better Care Fund & Social care Grant	-11.87	-11.87	-11.87	-11.87
Total Government Grant	**-76.69**	**-78.44**	**-82.59**	**-85.79**
Council Tax	**-71.98**	**-73.25**	**-75.33**	**-77.47**
Council Tax LCST Grant	**0.00**	**-1.54**	**0.00**	**0.00**
Total Council Tax and Grants	**-148.67**	**-153.23**	**-157.92**	**-163.26**
Budget Gap as above	**0.00**	**-2.26**	**-10.39**	**-2.46**
Savings identified as per tracker		**2.26**	**5.41**	**0.00**
In Year gap over the next two years	**0.00**	**0.00**	**-4.99**	**-2.46**
Cumulative Gap next two years	**0.00**	**0.00**	**-4.99**	**-7.45**

The plan has the following assumptions and associated risks:

- Full delivery of savings in the current year.
- The base budget being supported by further cumulative savings over the two years to the scale of £7m.
- Continued support from central government for any impact as a result of the pandemic in 2021/22 and future years, compensation for loss in sales fees and

charges, compensation for loss in council tax and business rates and assumes continued flexibility for raising income through precepts.
- Successful delivery of significant projects and investment in both commercial and residential properties largely dependent on the state of the market.
- Continued central funding of the gap in social care spending should it arise.
- Additional interest payments from further debenture loans made as part of the airport stabilisation package which has not yet been finalised.
- Uncertainty about the cost of making the level of change that will be required to make the budget reductions necessary.

The plan acknowledges that the figures included are a single point in a range of potential outcomes and that the level of savings required each year could vary by £2m per year either way.

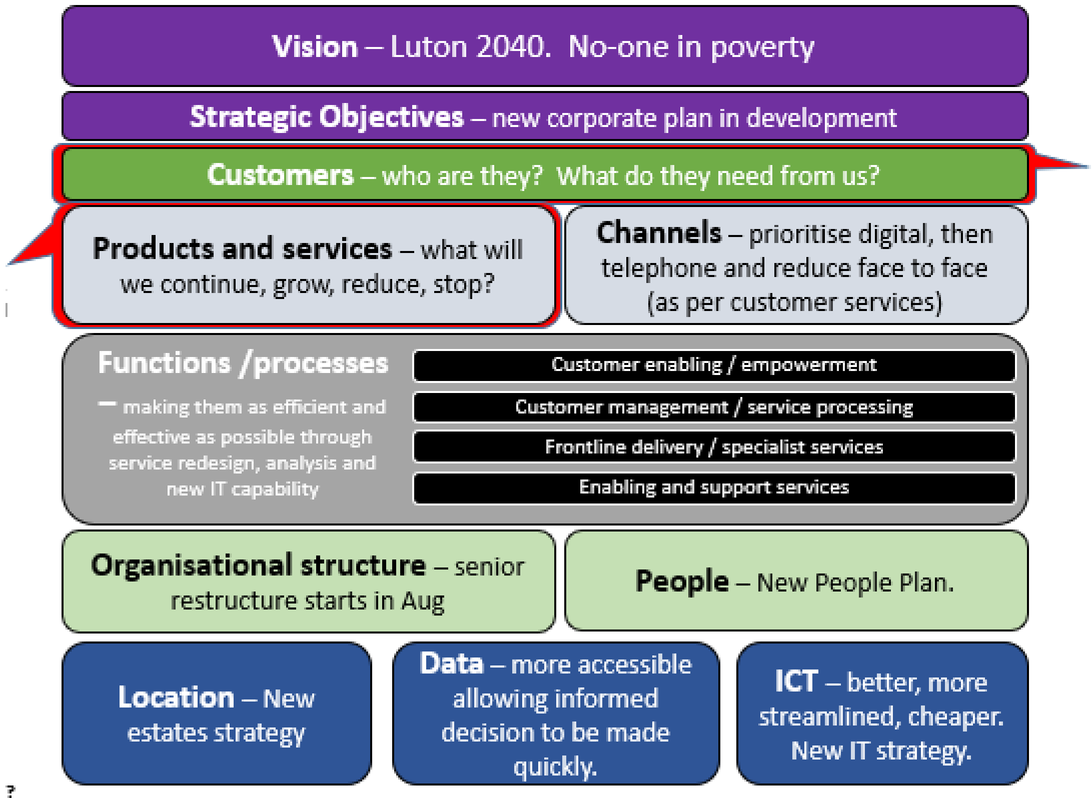
Transformation planning and activity

Luton acknowledges the diminishing returns likely to accrue from attempting to deliver further savings by salami slicing individual service budgets and that future efficiencies and associated savings must be realised through more radical and transformational activity.

The pandemic and emergency budget have given additional impetus to the consideration of more fundamental change at the Authority and the development of new transformation activity. A "Future Ready" Board made up of key senior officers and chaired by the Corporate Director of Inclusive Economy meets monthly and reports into the Corporate Leadership Team on a quarterly basis and also into elected members (via Finance Review Group Scrutiny Committee) on a quarterly basis.

In June 2020 the Board considered the Authority's target operating model. With demand and expectation rising and budget falling, they recognised the need to identify new variables and approaches to help it achieve its aims. It developed some design principles and key descriptors to articulate their future state and identified the need to move more towards a more holistic and person-centred operating model (See Figure 14.)

FIGURE 14 TARGET OPERATING MODEL DEVELOPMENT



Since then, the Board has absorbed work to implement the target operating model into a high-level Forward Plan. This plan sets out a timeline for development of the target operating model through business case development for new pipeline projects together with those projects which are already live and reflected in the savings programme (Human Resources end to end redesign, Passenger transport and temporary accommodation reduction) and fresh enabling projects on agile office development, unified communications and constitutional change.

There is clearly a great deal of work to do to make some of the more enabling projects concrete. And there appears to be some reliance on ideas coming up through services and IT business partners rather than it being driven more at a corporate level. The Finance Director told us a budget of £1m was available to support the programme and we note there are £9.5m of funds in a transformation reserve but there is a lack of transparency over the level of resource being devoted to transformation and invest to save.

There are a number of considerable challenges for the authority to overcome if the Forward programme is to achieve its potential:

- There is no clear overall resource need or investment budget which inhibits planning and prioritisation.
- The reliance on existing stretched corporate leadership team to lead and deliver.
- Shortage of project managers to take forward some of the projects.
- The reliance on a strategic partner (Civica) to help deliver much of the improvements in the target operating model through IT change.
- Gaining the support of elected members to some of the new ways of working and the constitutional changes.

5.Financial management capacity and expertise

This was not the focus of the review at Luton, and we did not have an opportunity to examine the quality of business cases which would have provided an indication of the quality of financial analysis and presentation within the Council. Neither were we able to interview any of the budget managers so we are unable to come to a judgement on their quality and the bearing this might have on the robustness of budget setting and the level of budget control. So, the following brief observations are based solely on our interviews with key council officers, members and external audit.

The Council's finance function contains some 65 staff. But given that most services in Luton continue to be delivered in-house there is a large demand for financial service support. The function currently provides financial services and support to the authority's commercial subsidiaries (under separate agreements and based on rate cards) as well as the local authority.

Dev Gopal is the Service Director, Finance, Revenues and Benefits and Section 151 Officer. We found the Service Director to be extremely knowledgeable and experienced across the range of local authority activity. This extends to the local authority's commercial operations and plans. He has a private sector background and has previous commercial expertise before joining LBC.

However there has been no deputy service director in post for more than 16 months and the Director can only call on three other finance officers to support corporate or non-service specific issues. This means that the Director is stretched and there is a risky concentration of knowledge and corporate financial memory. There is a need for more shared financial leadership across the authority. Indeed, a number of those we interviewed commented that they would like more business partnering support from Finance in the future, and that, from a senior finance perspective, the team is stretched.

The Authority should therefore determine to recruit a suitable candidate for the deputy post. It should develop a succession plan for the Finance Director and develop training plans for staff within the authority to mitigate the risk from concentration of leadership in one person. It should also consider how to improve the commercial skill sets of its staff and consider the recruitment of an additional finance/commercial advised for the proposed shareholder interest board.

Although the function is centralised and the service's business partners report through Finance, Revenues and Benefits, the corporate directors and service leads to whom we spoke were very content with the quality of the financial expertise and support they received. However, there is sparse covering of the finance business partners and managers. There are capacity issues at this level and without further resource in this area, the increased potential for Finance to punch above its weight will be lost and this would have consequences in savings delivery and support to the transformation programme.

6.Council assets and capital receipts

Summary of main findings

This section of the report considers the Council's property and FM arrangements.

- The Council has rationalised a significant number of assets in recent years, but this has tended to focus on certain building types (namely Office portfolio, Children's, and Adults), and therefore there remains opportunity to release further assets. Particular focus should be given to the Green Estate, Community, Leisure and Culture.
- There have been several assets recommended for disposal by the Property and investment service which have been rejected by members, despite there being a strong financial case.
- Whilst the office portfolio has seen reductions in recent years, this should be further reviewed. This should be supported by a wider agile/hybrid working programme to facilitate more flexible working arrangements for LBC staff.
- The Leisure and Cultural estate is heavily subsidised, and whilst not in scope of this review, these services require further exploration with a view to developing a clear service strategy. This should inform asset disposals.
- Revenue budgets are significantly overspending. However, this is a consequence of there being insufficient revenue budgets to maintain the asset portfolio currently held.
- The LBC investment portfolio is performing well and generates significant revenue for the Council. No further purchases are currently planned.
- The Service have a clear asset strategy and plan for delivering the strategy. However, they have on occasion struggled with implementing some projects due to member hesitancy.

The nature of the assets owned by the council

The total number of assets, based on the 2020-2023 Asset Management Plan, is summarised in Figure 15:

FIGURE 15 ASSET NUMBERS BY TYPE

Asset Type	Number	Asset Type	Number
Offices*	5	Adults	4
Depot	1	Children’s	5
Leisure	7	Educational Support	2
Cultural	6	Schools***	77
Community	8	Third Sector	7
Green Estate**	170	Industrial	2
Car Parks	14	Retail	9
Investment	33		
TOTAL NUMBER OF ASSETS			**350**

*Whilst the Council uses 10 Office buildings, it should be noted 3 are the same asset, whilst a further 2 are leased. Therefore, it would be more accurate to say the Council uses 6 offices.
**The Green Estate includes assets such as Open Spaces, Playing Fields, Pavilions etc.
*** Of the 77 schools, 18 of these were academies

When the plan was produced in 2019, the average occupancy rate of Council offices was 63%, which was up from 60% in 2015 when the previous asset management plan was developed. This would be considered below benchmark rates, but the Service argue that this will increase post-COVID. This is linked to the future intentions of the office portfolio, with the Council planning to exit a further site in full in the coming years.

Equally, the Children’s and Adults portfolio would also be considered concise, with minimal scope for further reductions. Significant work has been completed in these areas in recent years and is far more advanced than other councils. This has been aligned to the strategies of these services at Luton with work completed to change the provision of day services etc.

From 2013 as a whole, the Council has had minimal success with Community Asset Transfers (CATs). However, more recently, the service has managed to transfer three sites to community ownership. Due to the success of these CATs there are now additional transfers in the pipeline and which are well supported by elected members.

Post-COVID, many councils are reviewing the agile/hybrid working strategies in an attempt to further rationalise the estate. The Council does use sign-in software and the intention will be to review utilisation once staff begin to return to work. This should inform the office strategy and may facilitate a quicker exit from several office buildings.

Since 2013 when the first strategy was created, the Council has made significant strides in the development of its investment portfolio and has purchased a number of assets held solely to generate revenue income for the Council. However, it should be noted that the acquisitions programme has since been closed in 2019 with no further purchases currently intended.

The Council hold 33 investment assets in total, separate to those associated with the airport. As of 2019 these were valued at £93m, and generated income after costs of c£6.8m, a yield of c6.7% which would benchmark well. 88% of the 33 sites are in the Southeast region, with a strong focus on Luton.

Each asset is assessed at least annually by reference to a SWOT (strengths; weaknesses; opportunities; threats) analysis. A Property Investment Manager is responsible for execution of the strategy, reporting to the Service Director of Property & Construction.

There is some scope for a small rationalisation of the investment portfolio, with several opportunities being presented in recent months such as the Galaxy Centre – this is discussed in more detail below.

Adequacy of estimates for capital receipts

As per the Asset Management Strategy, a clear indication is identified for each asset by the Service which identifies their preference for whether to dispose/retain/refurbish. Equally, where a disposal is identified, the Service also highlight what their preference is for disposal, for example either to lease out, demolish, CAT, transfer to Foxhall Homes etc.

This reflects the work that the Service perform to appraise each asset and make an assessment on the most favourable method of disposal. However, disposals, particularly in the city centre, are prejudiced against sale to private buyers which are likely to be converted to residential. The Service cited several examples (such as Unity House) where assets have been sold and have been converted to poor quality residential accommodation, often resulting in building control and social issues.

Many sites which are disposed of have been transferred to Foxhall Homes, as there is a shortage of Housing in the Borough and therefore the sites (c5) have been sold for re-development, with at least 30% categorised as affordable housing. Where sites are transferred to Foxhall, they are purchased at a market rate. Likewise, where profits are generated by Foxhall a dividend is paid back to the Council which is likely to occur for the first time in 21/22.

However, it is clear that, on occasion, some asset transfers to Foxhall which have been recommended by the Service, have not been supported by senior officers or members. For instance, an example was cited of St Monica's, whereby the Service recommended that this asset would be transferred to Foxhall and therefore generate a capital receipt, only for members to decide to transfer to a third tenant.

Feasibility of any additional asset disposals

As per the 2020-23 asset management plan, several additional buildings have been earmarked for disposal. A high-level appraisal of these assets would suggest all disposals have been put forward based on a logical appraisal of their future use and which would generate the most value for LBC.

However, it should be noted that several of the suggestions in the 2020-23 plan are brought forward from the previous asset management plan in 2016-19 which would place doubt on whether these disposals will be delivered in full. Of particular note are potential developments at Lewsey, the Golf Club and Wandon Park.

Whilst there have been significant successes with the asset disposal programme identified in the 2016-19 plan, the revenue savings projected were cashed in full at the start of the project. Consequently, where assets have not been disposed of, this has placed significant strain on remaining revenue budgets with repairs and maintenance budgets consistently over-spending by c£1m a year.

The Lewsey Park Redevelopment Project would involve the rationalisation of six assets comprising of a Sports Park, Swimming Pool, Community Centre, Pavilion, GP Surgery, and Learning Centre into a single site. The development is expected to fulfil numerous Council objectives in terms of its Local Plan, which includes regeneration, co-location of services, health integration, quality of public realm, improved space and housing need. This initiative also links in with a number of local and national strategies.

The vision looks at resolving the poor layout, improving the visibility of the centre, increasing and improving the quality and financial viability of services and bringing community health and wellbeing to the forefront of the development. However, it is understood that this proposal, which would deliver significant revenue savings and avoid capital expenditure (on maintenance) has met significant pushback from stakeholders.

Likewise, in partnership with the Parks Service, the Property and Infrastructure team have suggested the CAT transfer of the Golf Course which is cited to benefit from a c£300k per annum subsidy from the Council The transfer/sale of this asset has been consistently not supported by senior stakeholders and members.

No values/estimates have been provided at this stage on the savings/potential capital receipts to be generated from the assets earmarked for disposal in the plan.

Whilst historically the Property and Infrastructure service have been tasked with generating a certain level of capital receipts, this is no longer the case and there are no longer any targets attached to the disposals programme. Whilst the Service continue to action a disposals programme, there is limited requirement on them to do so, other than to alleviate pressure on revenue budgets and future capital spend.

Indeed, more recently, a lack of pressure to generate capital receipts was cited, and which is evidenced by several examples. Whilst some are referenced elsewhere, a further opportunity arose recently during 2020 whereby Shroeders, who own the leasehold at the Galaxy Centre, approached the Council with an offer to buy the freehold for c£2m. The Property team acted in good faith, undertaking due diligence on this offer to confirm whether this was value for money. This was confirmed by an independent valuation, and the Service recommended the asset for disposal. However, this was rejected by members and some senior members. It is felt that this offer is a ‘one-off’ as the opportunity has arisen due to the unique circumstances brought on by Covid. Therefore, the opportunity is likely to have, or will soon, pass.

Equally, historically the Property and Infrastructure service had clarity on the use of capital receipts, and how this was recycled back into the service through the capital maintenance programme. In line with common practice, unless a capital receipt is ring fenced towards a project then is goes towards the reduction of the total level of borrowings. The same approach applies to treasury management savings.

The Service do have up to date condition surveys in place which were recently completed in c2018. This highlighted the backlog maintenance across all sites, and which was profiled against the following priorities: Priority **1** (urgent works), **2** (essential works within years 1 and 2) or **3** (desirable works required within years 3 to 5). The requirements for each Priority were as shown in Figure 16.

FIGURE 16

Portfolio	Priority 1	Priority 2	Priority 3	Total
Operational Buildings – 2018	£0m	£2.38m	£7.00m	£9.38m
%	0	25.4	74.6	100

The Service cited that they had been due to spend c£10m in capital maintenance schemes in 2020/21. However, as a consequence of COVID, this was significantly curtailed, with a spend closer to £1m. The works not completed in 2020/21 have been pushed back rather than be cancelled.

It was suggested that there have been some recent issues and alterations to the schemes which can be capitalised by the Service, with Finance implementing recommendations following an audit. Whilst the Service were of the belief this may have been risk averse, or unnecessary, it was identified that the new process for determining whether a scheme could be capitalised, was correct. This has however put extra strain on revenue budgets.

Asset management

As referenced elsewhere, the Service has an up-to-date Asset Management Plan which identifies the key projects which will be progressed over 2020-23. This new plan replaces the ones from 2016-19. There are several key projects identified in the plan including:

- Redevelopment of 2 surface car parks in to residential.
- Redevelopment of car park/library/cinema into leisure and office space.
- New multi-storey car park.
- Whipperly ring, new residential and retail.
- Lewsey Sport Park, consolidating various in to one purpose-built facility.
- Expand Inspire Sports Village to include community centre and office space.
- Football ground converted to residential.
- Tidy tips to replace old facility.
- CAT transfer of golf club .
- Culture Trust and Active Luton – no specific project is referenced, however does identify that a solution is required given the c£3m per annum subsidy paid by the Council. Both the Culture Trust and Active Luton currently only pay a peppercorn rent and no maintenance costs.

Despite the successes across 2013-2020 (See below), and the lack of a capital receipts target, there remains a clear focus on asset disposals whether through CAT transfer, sale, or as part of a wider regeneration project. This highlights that not only is there a clear strategy with what the Service are trying to accomplish, but also how this informs a clear plan with several key projects already identified.

There is a clear process for progressing asset decisions, with papers being taken to an Assets Board and which are then presented to members.

To support asset management, the Service uses the K2 (Tribal) software. The K2 software has all the required functionality, which is needed to successfully manage an asset portfolio, including commercial portfolio management (rent reviews, valuations, lease events etc.) and facilities management (helpdesk, compliance, reactive repairs etc.). However, whilst the K2 system has all the necessary functionality what is most important is whether the Service uses the system correctly. This has not been tested as part of this review.

What assets has the Council sold in the last three years to mitigate financial pressures?

As part of this review, LBC supplied a list of all assets which had been disposed of between 2013-2020. This included the below:

- 1x Car Park (sold to Foxhall).
- 1X Children's Centre (Let to nursery).
- 4x community centres (2x CATS, 1x Foxhall, 1x market sale).
- 5x Day Care centres (2x sold to Foxhall, 1 redeveloped, 1 market sale, 1x let).
- 1x homeless shelter (CAT).
- 2x libraries (1x market sale, 1x lease terminated).
- 7x offices (4x lease terminated, 1 market sale, 2x to let).
- 1x pupil referral (sold to Foxhall).
- 2x scout huts (sold to tenant).
- 3x sports pavilions (2x demolished, 1x mothballed).
- 1x visitor centre (open market sale).

The above highlights that LBC have been particularly successful in rationalising offices, day centres, and community centres. However, only a 3x cultural or leisure sites (2x libraries and 1x visitor centre) that have been rationalised over a seven-year period, suggesting that there remain key opportunities in these areas. This is a view which is shared by the Property and Infrastructure team.

Likewise, whilst the Service have been successful in 3x CATs, this should be a continued area of focus, and it is understood that there are a several sites in the pipeline. A review of the green estate should also include the playground strategy as 59 separate sites maintained by the Council would benchmark high.

As referenced throughout section 6, there have been several opportunities for further asset disposals which would have generated further capital receipts which have not been progressed as a consequence of member decisions, leading to their rejection.

Revenue expenditure

The service's revenue repairs and maintenance budgets have consistently overspent over the last 10 years. In 2011/12 the budget was £1.7m whilst the spend was £2.15m. By 2019/20 the budget had reduced to £1.52m, with a spend of £2.51m. It should be noted that the budget had at one point fallen to as low as £1.24m in 2018/19.

As referenced elsewhere, the main reason cited for the budget overspend is that budgets have been reduced in line with proposed asset disposals, only for the disposals to be rejected following consultation. This has left the service with a requirement to maintain the same number of assets, with less budget.

As capital spend has not kept pace with requirements, the condition of assets has deteriorated, resulting in higher revenue costs to maintain them.

Whilst detailed benchmarking has not been possible to perform given the scope of this review, the actual spend on planned/reactive maintenance would broadly be in line with RICS cost per m2 benchmarks, which highlights that budgets are insufficient. However, if looking at reactive maintenance alone, LBC spend above the benchmark figures. Further work would be required to understand whether this is linked to deteriorating assets (likely), or inefficient contracts (unlikely).

The Service have access to an array on contracts for the delivery of Hard and Soft FM services which are monitored closely including the time reaming on the contracts. Cleaning is delivered externally by 2 separate contractors (3 lots), Caretaking/Security is delivered internally, whilst Hard FM is delivered through a combination of external suppliers and the internal Building and Technical Services team.

Building and Technical Services, whilst traditionally a Housing DLO, also perform Building Fabric and Electrical reactive repairs across LBC's operational portfolio. The service was recently benchmarked with the review finding the hourly rate was very competitive.

Detailed recommendations on capital receipts and asset management

Number	***Recommendation description***	***Timescale***
1	*To progress a detailed review, and implementation of progress to agile and hybrid working practices underpinned by clear strategy and project management. Consider how this impacts on office sites.*	*6 months*
2	*To progress the CATs and other potential disposals already identified, with particular priority given to Stockwood Golf Club to reduce c£300k subsidy.*	*3 months*
3	*More detailed review of investment portfolio and divest from sites with lower yields, although opportunity is not expected to be significant.*	*6 months*

4	*Attached to the above, a final review of the Galaxy centre should be considered. This could generate a £2m Capital receipt as recommended by the Property Service.*	*1 month*
5	*Dependent on level of capital required, potential to review future use of Apex House which could be sold rather than leased out.*	*6 months*
6	*A new capital receipts target should be set for the Property and Investment team.*	*1 month*
7	*Greater clarity is required regarding the generation of capital receipts, and how these are then allocated to schemes. Likewise, a capital maintenance budget should be communicated to the Property team.*	*1 month*
8	*Confirm the capitalisation of schemes to ensure this is compliant and being followed accurately.*	*3 months*
9	*Significant work is required on the service strategies for both Active Luton and the Culture Trust to inform disposals.*	*6 months*
10	*Whilst not in scope of our work, a review into Active Luton is recommended given the significant subsidy paid (c£3m) by the Council, and the £4m received from the airport.*	*6 months*
11	*Where asset disposals deliver revenue savings, consideration should be given to reallocating these to the repairs and maintenance budgets to reduce the overspend.*	*6 months*

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