APPENDIX A

Luton

Report For:	Executive	Item No:
Date:	29 June 2020	0
Report Of:	Service Director – Finance & Audit	
Report Author:	Dev Gopal	

Subject:	Emergency Budget Report 2020/21	
Lead Executive Member(s):	Cllr Malcolm	
Wards Affected:	All	
Consultations:	Councillors	☒
	Scrutiny	☒
	Stakeholders	☐
	Others	☐

Recommendations

1 The Executive is recommended to:

(I) **Approve the revisions to the 2020/21 revenue estimates of net expenditure as set out in Appendix A taking into account the impact of COVID-19 and expenditure properly incurred to date for submission to Council.**

(II) **Approve use of reserves of up to £13.4m over two years (£10.4m for 2020/21), as set out in Appendix A, for submission to Council.**

(III) **Delegate authority to the Chief Executive in consultation with the S151 Officer and Finance portfolio holder to allocate the reserves based on progress made on the stabilisation plan.**

(IV) **Approve the revisions to the Capital Programme set out in Appendix B for submission to Council, noting that those projects relating to additional debenture loans to London Luton Airport Limited require specific Executive approval before they proceed, based on appropriate reports and scrutiny.**

(v) **Approve the revisions to the Treasury Management Strategy and note the impact in 2020/21 is not significant due to postponement of capital projects amounting to £64.23m.**

(VI) **Approve the list of in-year savings proposals set out in Appendix C 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.**

(VII) **Approve the additions to the Budget Risk Management Strategy set out in paragraphs 35 and 37 below, for submission to Council.**

(VIII) **Approve the provisions set out in the Revenue Budget Management section, paragraph 40 and 42 below, for management of the budget in the circumstances**

of the additional financial risks arising as a result of the COVID-19 emergency, for submission to Council.

(IX) **Note the additional support from Central Government to businesses and community as described in paragraph 28 and Appendix F**

(x) **Note the extent of future financial risks and uncertainties, and the importance of a corporate focus on developing a viable strategy to balance the budget for 2021/22.**

(xi) **Note that further discussion is taking place with MHCLG and Full Council will be updated if there are any notable progress.**

(xii) **Note discussion is taking in place between LLAL and LLAOL, the airport operator, and a further report will be submitted to the Council as the shareholder at the appropriate time.**

(XIII) **Note the feedback received from the public and staff engagement which is summarised at paragraph 72 to 80 and detailed in full at Appendix E.**

Executive Summary

2 Full Council approved the Council's 2020/21 Revenue and Capital Budget on 19 February 2020. In accordance with the Council's Standing Orders, the Executive is expected to manage the budget within the estimates approved by Council, with officers reporting any expected variations together with proposals as to how those may be managed.

3 The COVID-19 Emergency has caused fundamental changes to the Council's budget. In addition to extreme pressures on many services such as care, homelessness and public health, it has dramatically affected the Council's commercial activity, particularly the Council's 100% owned company, London Luton Airport Limited (LLAL), and the company's ability to pay the dividend that in previous years the Council has used to fund essential services in the town.

4 The extent of the financial impact requires an emergency response with some substantial amendments to the revenue and capital estimates approved previously, in order to deliver a balanced budget this year. New savings proposals are set out in Appendix C, alongside the savings previously approved for the 202/21 budget. It must be noted that those proposals significantly affecting service delivery or jobs are only to be approved for consultation, and at the end of that consultation the Executive will receive further reports in order to determine whether the proposal should be approved, or whether alternative options are required.

5 The total savings as shown in the table below covers four main areas as follows:

- **Impact on workforce:** the proposed base budget includes savings of £4 million in changes to organisational structures. It is anticipated that a minimum of 365 posts (12%) across the council are affected. A number of these posts are currently vacant, and every effort will be made to protect jobs by working closely with partner organisations, including schools. However, sadly, it is inevitable there will be redundancies. The council's organisational change and active redeployment procedures will be used to minimise the number of staff actually made redundant. One of the proposals shown at Appendix C relates to a £500,000 saving from a review of the current senior leadership team structure (corporate and service directors) which currently has three vacancies.

- **Impact on front line services**: Where possible this budget seeks to protect cuts to frontline services by making back office efficiencies, contract management savings, savings from buildings being closed and proposals to bring in more income. But given the magnitude of the savings it is unavoidable that some front line services will be affected. This includes a proposal for a new customer services model reducing face to face contact except for our most vulnerable residents and those who don't have access to the telephone or the internet, a cessation of cash kiosks and the development of a new council tax reduction scheme. This budget also includes saving proposals in relation to neighbourhood enforcement and public protection, highways maintenance, energy savings on street lights and green waste.
- **Impact on adult social care:** Many of the savings from Public Health and Wellbeing will result from contractual renegotiations and remodelling of services. For example adult social care will be remodelled in line with the successful implementation of the side by side programme, which takes an asset based approach to adult social care. There will, however, be a reduction in some front line services such as day care, which fewer people have been choosing to access. Savings across the department will result in a reduction in preventative and supportive services across all ages including vulnerable adults.

- **Impact on children's social care:** A number of the savings in Children's services will come from service redesign. There will be changes to services including the reduction or ceasing of some frontline provision such as the universal and targeted parenting provision and support – however through a redesign in services all families most in need will have access to support to prevent their needs escalating . It will be necessary to seek alternative provision of the catering service and the savings within our education service will see a reduction in the services ability to support schools with school improvement.

6 The major changes proposed to the Council's 2020/21 budget are summarised below.

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 (Exec min.EX/58/20)	1.7
Reduced revenue costs of Capital Programme (one off)	-1.0
Total Additional Net Costs	**22.2**
Savings and Use of Reserves	
Additional Savings Proposals 2020/21 total (see Appendix C)	-16.9
Use of one-off Reserves to balance budget	-5.3
Total of budget reductions and use of reserves	**-22.2**

7 The assumptions used for the 2021/22 budget have been revised in order to take into account the potential impact of COVID 19. These estimates are based on the best information available and some of the planning assumptions are necessarily based on

limited information as the full financial impact of COVID 19 is yet to be felt. That will happen once the support from central government comes to an end.

8 The main changes to the costs and income figures are explained below.

- Loss of income represents reduction in areas such as parking, licensing, trading activities, commercial income and other fees and charges.
- Costs – as explained in paragraph 26 these are based on latest information and on best estimates taking into account the uncertainties and risks associated with COVID -19.
- C Tax and Business rates changes reflect the state of the economy and potential for reductions in collection rate, increases in bad debts, and an increase in demands on the Council Tax support scheme.
- Dividend receivable – reflects the reduction in income projection based on detailed scenario analysis and forecasts of passenger numbers.

9 It should be noted that the current risk assessment of the budget reduction proposals indicates that not all will be able to deliver the full amount of saving proposed for 2020/21, and therefore the more likely level of reduction in the Council's reserves is £10.4m and £13.4m over two years. Even more reserves will be used up if not all the proposals are approved, or if the unachieved savings from previous years (see paragraph below) are not delivered in 2020/21.

10 The key issues arising from the 2019/20 outturn elsewhere on this agenda are as follows.

- An overspend of £4.7m in Children's and Families social care
- An overspend of £3.5m on the Homelessness budget including temporary accommodation

These major overspends were largely offset by the use of the contingency and short-term savings in Treasury Management. This emergency budget incorporates significant proposed savings in Treasury Management - £1m from re-profiling the Capital Programme – so it is not prudent to assume that there will be an equivalent level of compensating underspends at the end of the current year.

Background

11 In February 2020 the Council set a balanced budget for 2020/21. However, the impact of COVID-19 now means that many of the estimates for both spend and income included in that budget are no longer realistic. As a result, it is necessary for the Executive and Council to consider making some emergency changes to the 2020/21 budget.

12 The financial impacts of the COVID-19 emergency for the Council can be put into four types, as set out below.

1) Increased expenditure directly and indirectly related to the key work required as part of the emergency response.
2) Reductions in tax income, from Council Tax and National Non-Domestic Rates.
3) Reductions in fees and charges income, including commercial rents.
4) Income reductions and risks relating to the Council's 100% owned company, London Luton Airport Limited (LLAL).

13 The current expectation is that the Government will reimburse the majority of the initial emergency response and the losses incurred during lockdown, but that there is likely to be a longer-lasting impact on the vulnerable, and on the use of Council facilities, both during the easing of lockdown and afterwards, which will continue to require a significant response from the Council as well as to reduce income, that this is not likely to be reimbursed. Further, no commitment has been made by Government in relation to item 4, the airport-related risk, despite the petition the Council has made.

14 In addition to the impacts of COVID-19, this report needs to consider the overall budget position and risks at the current time, in order to assess the changes needed to ensure that the budget remains balanced, and that spend is duly authorised.

15 The airport risk is key to the Council's current financial position. For many years, Luton has derived major financial benefits from the operation of the airport. In 1998 a 30 year concession agreement was signed by LLAL and the airport operator, that gave LLAL a share in the rewards and risks involved in the running of the airport. The agreement was extended in 2013 with minor amendments to enable the developments of the airport that have taken place in recent years. Under the terms of the agreement LLAL's income is based on the annual number of passengers (and amount of freight) each year. The income has increased greatly over time. The risks relating to this have been emphasised in the Budget papers every year, and the Council-approved Budget Risk Management Strategy (Appendix B of every Budget Report) includes the risk that Airport income reduces significantly – a risk that was given a low likelihood, but with a critical impact should it occur. The risk management required is to maintain a prudent minimum reserve balance, to regularly review the airport situation, and 'readiness for a radical reappraisal of the council's budget and capital programme should there be any long-term impact on airport income.' The Council now faces the need to make that radical reappraisal, as the huge, ongoing impact of the COVID-19 emergency on the aviation industry, combined with the nature of the concession agreement, means that LLAL will not be able to make any dividend payment for the current year and no dividend can be expected for next year either. It should be noted that the concession agreement is based on LLAL bearing the risks relating to 'force majeure' only or unforeseeable events.

16 The Council's position as 100% owner of a major airport is unique amongst local authorities. The nearest equivalent is those authorities who are shareholders in the Manchester Airport Group, but that comprises 10 authorities between them owning 65% of the operating company. It has been reported recently by the Manchester Evening News that those authorities have agreed to make loans totalling £260m to the Manchester Airport Group as a direct result of the effects of the COVID-19 crisis on the aviation industry, and that their expected dividends for 2020/21 and 2021/22 have gone from £110m (shared between the 10 authorities), to zero.

The Current Position

London Luton Airport Limited and the Council's Budget

17 The net dividend and interest income from LLAL has increased significantly over the years: from £7.6m in 2012/13 to £33.5M in the original budget for 2020/21; this would have funded

around 23% of the Council's total net service expenditure. At the same time government grant income has reduced substantially. These major changes have made airport income an essential financial lifeline for the Council. However, the COVID-19 emergency has had a massive negative impact on airport activity. The current approved budget for 2020/21 includes £16million income from LLAL dividend. The LLAL Board have determined that they will not be able to make dividend payments for 2020/21 or 2021/22, and therefore this income can no longer be included in the Council's budget.

18 The LLAL Board has reviewed its financial and contractual position as a matter of urgency, and has developed a financial stabilisation plan as a result. The contract between LLAL and the airport operating company, London Luton Airport Operating Limited (LLAOL) includes clauses relating to 'force majeure'. These appear in many commercial contracts and relate to what happens when there is an event outside the control of the parties to the contract that prevents one or other of them from fulfilling their obligations. Exactly how each of these clauses will apply in current circumstances is now a subject of considerable legal interest and interpretation, the outcome of which will impact on LLAL's financial position.

19 In view of the risks associated with the potential application of the Force Majeure clauses, combined with the sudden reduction in passenger numbers at the airport, the LLAL Board has determined that the company cannot prudently afford to make dividend payments until business at London Luton Airport returns to something approaching normal and the company's own financial position has been stabilised.

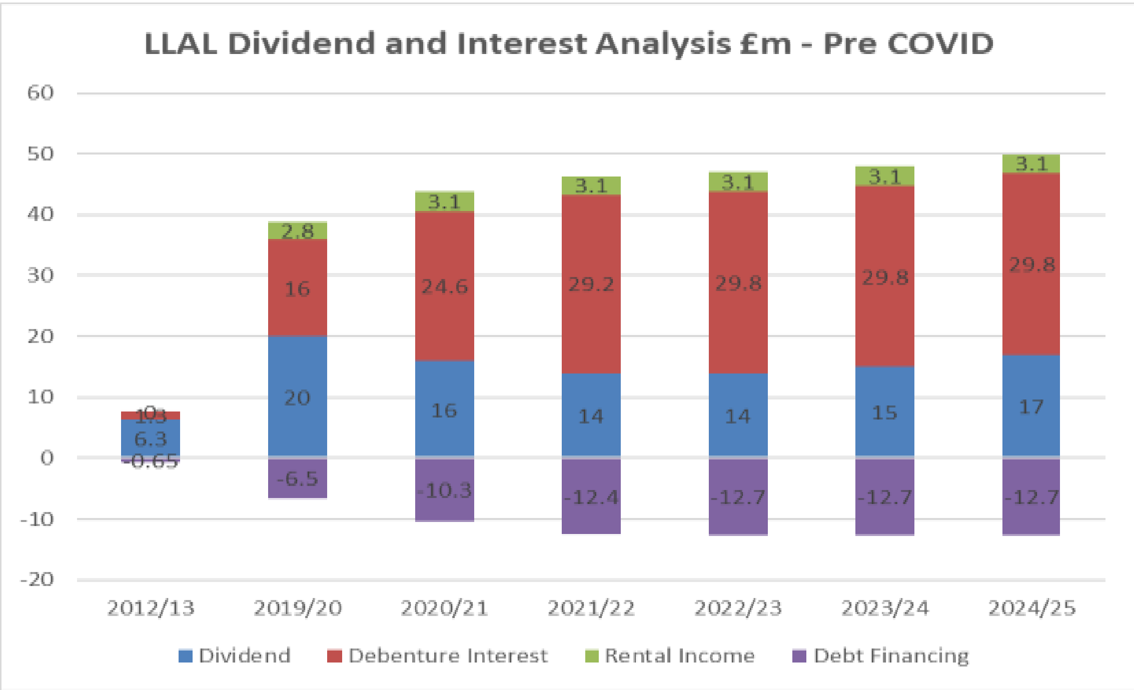
20 The Direct Air Rail Transport scheme has continued, with forecast expenditure above the levels of the existing debenture loans approved by the Council, and LLAL's preparations for the proposed Century Park Access Road (CPAR) and other costs relating to the Century Park development included taking options on the purchase of properties that had to be bought if the road was to be built as planned. A number of those options came up and the company bought those properties and incurred other expenditure on CPAR using the working capital i.e. internal borrowing. Now that the company is receiving no concession-fee income, its financial position is completely different. As a result, the cash holdings of the company were used to fund capital expenditure rather than being held as cash to back its reserves. At the time, this represented a pragmatic approach as part of treasury management – offsetting the financing cost of loans by sacrificing the very much smaller amount of interest that could be earned on cash investments, and keeping the differential in interest rate within the company. As a result, the stabilisation of the company will require it to borrow £59.6m, as its reserves previously used to finance capital projects amounting to £16.9m are not cash-backed. It also needs to borrow to finance past and future borrowing costs capitalised on the DART and DCO schemes amounting to £24.7m while the assets are in the course of construction and additional costs for the DART project amounting to £18m.

21 Members will be aware that the Council has been the company's sole source of borrowing – and that debenture loans have been made on the basis that the company should not seek any other source of funds, since the alternative lender would also then have a claim on some of LLAL's assets in the event of a default. Therefore, a key factor in LLAL's financial stabilisation plan is to request further borrowing from LBC.

22 This report does not request specific approval of any further loans to LLAL, although amounts of loan are included in the Capital Programme. Good governance requires that loan requests are made and considered separately, and are subject to detailed appraisal and appropriate scrutiny. It should be noted that when considering these requests, the Executive will need to assess the robustness of LLAL's financial stabilisation plan, an updated position on the capital programme and progress made to date, and overall position in light of the impact of COVID-19 and the potential further impact of the force majeure clauses in the contract.

23 While giving further loans to LLAL at this stage involves risk that requires detailed consideration (including assessment of the company's stabilisation plan), it is a similar risk to that faced by the Manchester councils when making their loans reported by the press as totalling £260million. Further, if LBC is unable to support the stabilisation of LLAL, then the gross income from LLAL included in the Council's budget – currently £43.7m for 2020/21 – is at risk, and not just for the next few years. Additionally, LLAL's community funding programme would also be put at risk.

24 A full comparison between the LLAL position used for the 2020/21 budget and medium term plan, and the latest central case prediction of the medium term, is set out below. To put this table in perspective, in 2012/13, the last year before the extension of the current contract, the total income was £7.6m, net income £7m.



LLAL Interest and Dividend Income in the February 2020 Budget Report

Income	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Dividend	20.0	16.0	14.0	14.0	15.0	17.0
Debenture Interest	16.0	24.6	29.2	29.8	29.8	29.8
Financing Income	**36.0**	**40.6**	**43.2**	**43.8**	**44.8**	**46.8**
Rental Income	2.8	3.1	3.1	3.1	3.1	3.1
Total Income	**38.8**	**43.7**	**46.3**	**46.9**	**47.9**	**49.9**
Debt Financing	-6.5	-10.3	-12.4	-12.7	-12.7	-12.7
Net Income	**32.3**	**33.5**	**33.9**	**34.2**	**35.2**	**37.2**
Yearly Increases		1.2	0.4	0.3	1.0	2.0

LLAL Interest and Dividend Income latest estimate Post COVID -19

Income	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Dividend	20.0	0.0	0.0	10.3	14.1	16.1
Debenture Interest	16.0	24.6	29.2	29.8	29.8	29.8
Financing Income	36.0	24.6	29.2	40.1	43.9	45.9
Rental Income	2.8	3.1	3.1	3.1	3.1	3.1
Total Income	38.8	27.7	32.3	43.2	47.0	49.0
Debt Financing	-6.5	-10.3	-12.4	-12.7	-12.7	-12.7
Net Income	32.3	17.4	19.9	30.5	34.3	36.3
Yearly Increases/(Decrease)		-14.9	2.5	10.6	3.9	2.0

As shown in the above table the reduction in LLAL dividend over the two years amounts to £40m. It is assumed that the passenger numbers will reach the pre-COVID-19 level in three years' time. However if the recovery takes longer, then the loss of dividend will extend beyond 2022/23. This is also subject to the current discussions taking place with the airport company LLAOL to address any further contractual issues arising from COVID-19.

Key risks arising from the 2019/20 Outturn Report

25 The Outturn Report for 2019/20 is a separate item on this agenda. The overall position shows a net overspend of £0.195million, after deploying the full £5.9m of general contingency budgets included in this year's budget and by some one-off gains in the corporate resource accounts relating to borrowing costs, interest earned on investments and capital financing. The key points are as follows:

1) The major overspends relate to:
   a) Children's and Families Social Care, including Special Educational Needs transport (£4.7million) prior to the introduction of the additional expenditure approved to implement the Ofsted improvement plan, and;

b) Homelessness, £3.5million, with a significant increase in expenditure towards the year end, leaving this as an area of real risk when government support for COVID-19 related expenditure ceases.

2) The short-term reductions in treasury management expenditure, which were the largest part of the offsetting underspends, cannot be expected to continue. Therefore in the Financial Sustainability section, below, the projections include a continuation of the underlying £7.5m budget pressure that has been present for the last few years as a result of planned efficiencies in these areas, and some others, not having been realised and the continued high levels of demand.

COVID-19 Related spend to date

26 The table below shows the level of COVID-19 related expenditure incurred and reported to Government for April and May, and as currently estimated for the whole financial year. The expenditure to date has been incurred under the Council's emergency procedures, and Executive is asked to note and approve this.

COVID-19 Spend	**Full Year £000s**
Adult Social Care including PPE	4.191
Children's Social Care and SEND	303
Education	755
Homelessness	421
Cultural and related spend	131
Environment & Regulatory	1.014
Finance, IT and corporate	924
Other General Fund	2.068
General Fund Total	**9,548**
Housing Revenue Account	183

27 On top of the additional expenditure, there is the loss of income, a huge issue for Luton. The full year impact on the Collection Fund is estimated to be £7.97million, the losses in fees and charges £3.944 million, and the total commercial income loss, including airport dividend £16m and loss of commercial income £0.52 million. The additional loss of income for LLAL amounts to £30.7 million which brings the total loss of income for LBC and LLAL to £59.14 million as per Appendix D

28 It should be noted that to date, government has confirmed COVID-related grants of £11.25million, and the emergency budget has been prepared on the assumption that the Council will also receive a further £6.3million to cover additional costs and loss of income forecast by the Council linked with COVID-19. In addition Government has agreed to fully fund the cost of new or extended out of hospital health and social care support packages,

subject to a joint arrangement with the CCG, has offered a Local Council Tax support fund of £2.1million and provided business rate relief and grants for Luton businesses totalling £56 million. There are other various grants and assistance as listed in Appendix F and most of these grants are paid directly to external organisations.

Budget Reduction Proposals

29 In view of the financial situation facing the Council, officers have worked to develop budget reduction proposals throughout the Council's services, at the same time as responding to the demands of the COVID-19 emergency response. Numerous proposals have been developed, and they are set out in Appendix C. They are summarised below by department and by type of proposal. The full year savings is planned to be delivered over two years and any in year gap to be funded by drawdown from reserves up to £10.372m in 2021/22 and £3.047m in 2021/22. The Council is already using its reserves at the rate of £1.8m per month. However every effort should be made to deliver those savings as early as possible to minimise the drawdown from reserves.

Department	**Full Year Saving (£m)** (incl. original savings**)**
Chief Executives	1.004
Customer & Commercial	4.350
Children Families & Education	3.173
Place & Infrastructure	5.956
Public Health & Wellbeing	7.124
Grand Total	21.607

Proposed budget reductions analysed by type

Type of Budget Reduction	**Net Saving/Income £m**
Process & Efficiency Improvements	5.552
System/Service Redesign to customers	8.207
Changes to Organisational Structures & responsibilities	4.038
Trading & Commercialisation	1.926
Procurement & Commissioning Efficiencies	1.884
Total	**21.607**

30 The savings proposals have to be viewed in the context of risks and uncertainties posed by COVID 19. Moreover it is worth noting the following points.

1) Those budget reduction proposals requiring consultation prior to full approval are marked with 1 & 2in the Appendix C.

2) The risk assessment and sensitivity analysis indicate that the likely saving achievable in 2020/21 is significantly below both the full year total shown above and the initial estimate of the potential saving for the year (estimated £16.9m). As mentioned in paragraph 29 above the Council is planning to use £13.4m of reserves over two years to balance the budget and provide the breathing space to recover and achieve an affordable and sustainable budget which is a statutory requirement.
3) If specific proposals are unacceptable to members, the shortfall will increase and further savings proposals will have to be considered. This risk may be mitigated by developing a pipeline of projects.
4) The delivery of the savings will also require investment as part of the spend to save or invest to save programmes. The Council has earmarked reserves which could be released to assist with delivery and pump priming. This will be assessed on a case by case basis and supported by robust business case and complies with the governance and scrutiny process.
5) It is worth noting that the level of savings required in future years is difficult to predict due to various risks and uncertainties including COVID – 19, the airport and the state of the economy and pace of recovery.

Reserves and the Budget Risk Management Strategy

31 The most important thing to note about reserves is that they are one-off funding. They can only be used once, to deal with single events. If the risk that they were created to address still remains when they are used-up and gone, then they have to be built up again, by making additional savings or underspends over and above what is required simply to balance the budget. At the end of 2019/20 the Council held £77.9m in its general fund reserves, of which £5.4m was an advance payment by Government towards the current year’s COVID-19 emergency response, giving an effective balance of £72.5m.

32 The general fund reserves, excluding schools balances, are set out below. When determining what can be used in the current circumstances, it is first necessary to consider the minimum reserve level, and then the reason for holding each reserve. Appendix B of the original budget report (the Budget Risk Management Strategy) set out a calculation of the minimum reserve requirement, which totalled £13million. This is higher than the standard approach to setting the minimum reserve, which is to use 5% of the net budget requirement, which would be about half of the current figure. However, the current situation demonstrates that the financial risks facing Luton are significantly greater than those faced by most authorities. Luton’s income from commercial sources is – or was, prior to COVID-19 - a greater proportion of its budget than any other English local authority apart from the City of London, and the largest proportion of that income is directly linked to airport throughput, which is highly vulnerable to pandemics. The concession fee income is also subject to the contractual risk of ‘force majeure’ – events being legally determined to be unforeseeable and out of the control of the operator. Luton’s economy has been assessed to be particularly vulnerable to the risks of COVID-19, and so many of its jobs are airport-related. As a result of the pandemic, the financial risks associated with the Council’s lending and borrowing activities have increased and this has to be closely monitored.

33 Given this position the £13million is an absolute minimum general reserve requirement, and it would be prudent to retain the current total level of unallocated reserve funds, which is

£14.02million, as a minimum for the current year. The original Budget Risk Management strategy also noted that retaining the £2.97m specific risk requirement reserve was essential in addition, and that the high level of proposed capital spend made the retention of the Major Projects and Insurance risks reserve balance is vital. The Council is embarking on a big change programme and also a transformation programme to drive efficiencies. This would require payment for potential redundancies and also pump priming invest to save investments which will draw down on the Invest to Save, Pension and Re-organisation Reserves amounting to £14.4m.

34 The Council has two specific reserves which it would be reasonable to consider as being available in the current circumstances: the Welfare Reform and Recession Reserve, current balance £1.471m, and the Funding Equalisation Reserve, current balance £14.885m, in order to 'buy time' if the proposed savings cannot achieve the full target immediately, but there is a realistic, viable plan as to how the budget can be balanced from 2021/22 onwards. That gives a total of £16.356m. It should be noted that the Funding Equalisation Reserve was established to address the risk of reductions in business rates and/or income from commercial activities, including LLAL and Foxhall Homes, in any one year, and that those risks will continue. The Welfare Reform and Recession Reserve was established to provide help to those badly affected by social change in difficult times. If all of those reserves are used up, the Council will need to consider in future how it can address those ongoing problems. Therefore it is essential that the amount used is minimised.

35 The review of financial risks as set out above makes it necessary to add some specific risks to the Council's budget risk management strategy.

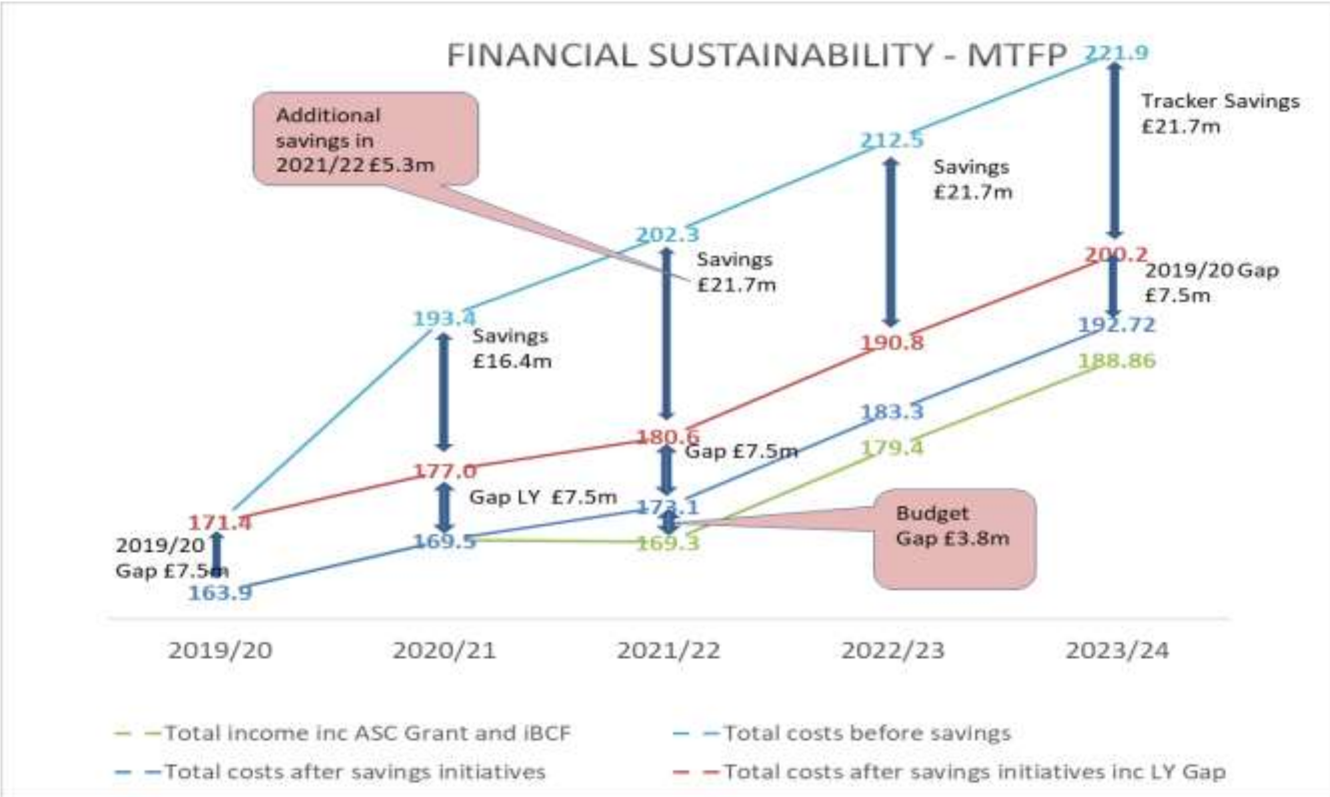
1. Some COVID-19 related costs may not be fully reimbursed by central Government.
2. The adverse impact of COVID-19 on the social and economic fabric of the town may result in ongoing additional demands on services for the vulnerable and may impact negatively on net council tax income, on business rates and on fees and charges.
3. The impact of a pandemic, or other major unforeseeable event, on the Council's commercial activities, and that of its subsidiaries.
4. The specific risk to the viability of LLAL arising from a pandemic, with the potential impact on the town from reductions in, or the ceasing of, its local community funding policies, together with the consequential additional financial risk to the Council from additional lending required to stabilise the company.

36 All of these additional risks are beyond the direct control of the Council, and the potential mitigation is principally ensuring that the Council keeps sufficient reserves and is prepared to react quickly when catastrophic events occur, by campaigning for additional government funds, and to develop viable budget strategies and proposals to ensure that it can continue operating effectively within the resources available.

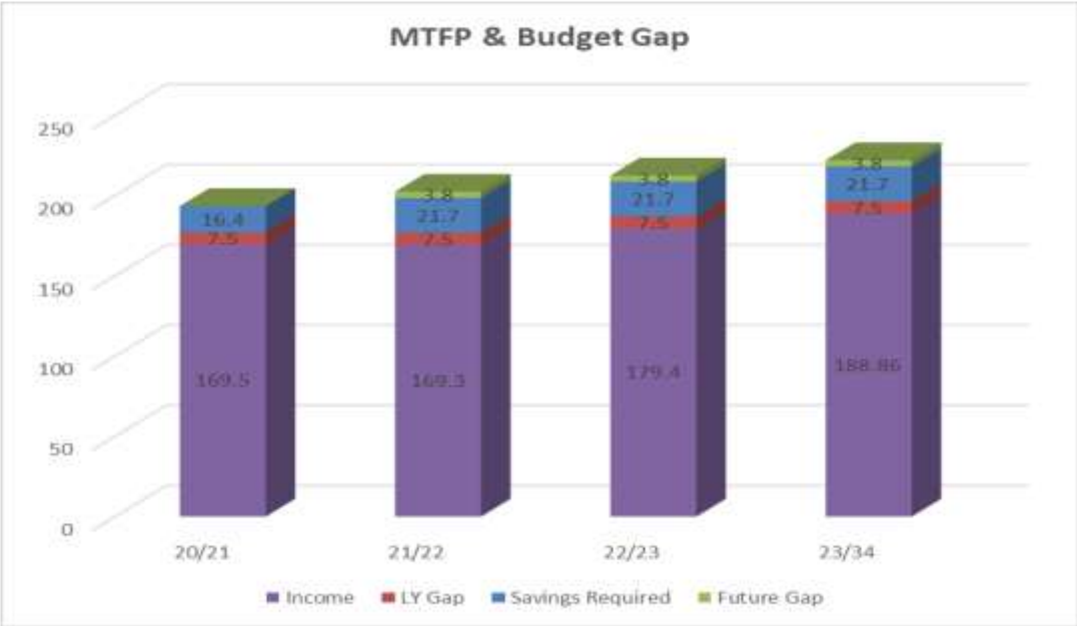
37 Financial risks are substantial and ongoing. The speed of recovery of airport passenger numbers is highly uncertain, but the Council must face the prospect of no LLAL dividend for both this year and next. The potential impact of the force majeure clauses on LLAL's financial position is not yet established. The impact of a second wave of COVID-19, and the extent of the government's willingness to fund local authorities for that impact, is unknown. The extent of Government support in future years for local government in general, and

Luton in particular, may be impacted by national financial difficulties due to the aftermath of COVID-19 and the potential impact of Brexit, both of which are currently highly uncertain. Therefore it is vital, not only that a significant amount of usable reserves is retained at the end of the current financial year, but also that the 2021/22 budget process starts early and is a key corporate focus, and that it involves the development of a viable budget strategy and plan to address the need to balance the budget on an ongoing basis as quickly as possible.

Financial Sustainability 2020/21 onwards



38 The chart above shows the level of savings that are currently estimated to be required in future years. It does however need to be emphasised that the level of savings required in future years is difficult to predict because there are so many risks and uncertainties involved, at both a national and local level, including COVID-19, the state of the economy and the pace of recovery and the extent of future support to local government from central government. The chart below shows the level of income over the next four years and the stagnation in the years 2020/21 and 2021/22 mainly due to the drop of £16m in dividend.



Budget & MTFS Assumptions

39 At this stage the planning assumptions used for the original medium term financial plan have been followed for future years, except for the changes to the income from LLAL shown in this report. This will need careful review and appraisal when the 2021/22 budget is considered, and it will be important to assess the risks relating to all of the Council's income budgets, together with the potential demands on the budgets used for the care and support of the vulnerable.

Revenue Budget Management

40 The Council's Standing Orders state that 'subject to the provisions of any Scheme of Devolved Financial Management approved by the Council, the Executive shall confine its expenditure to the amounts included in the capital or revenue estimates approved by the Council, and wherever it appears that expenditure in excess of the amount included in the estimates for any item has been or is likely to be incurred in any department, the appropriate Chief Officer shall forthwith report the fact to the Executive.'

41 In view of the extraordinary circumstances of the current situation, it is suggested that for the remainder of the 2020/21 financial year only, the Council allow the Executive to commit necessary expenditure in excess of the amount included in the estimates, subject to a risk assessment, provided that the overall expenditure level does not threaten to deplete the Council's general reserves below the minimum level deemed by the Section 151 officer to be required for medium and long term financial sustainability and also are within the parameters as approved by this emergency budget.

42 It is recommended that the Chief Executive is delegated authority, in consultation with the Finance Portfolio Holder and the Section 151 Officer, to allocate necessary use of reserves based on progress with the stabilisation plan. It is also suggested that monthly meetings be arranged for the Finance Portfolio Holder, the Chief Executive and the Section 151 Officer to review each month's budget outturn predictions, to consider the potential impact on the

budget and reserve levels, and to determine whether any further action, such as an urgent report to Executive, is required, rather than waiting for the outcomes of the quarterly monitoring reports.

Value for Money & Efficiency (Modernisation Agenda)

43 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 have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. It is essential that the Council continues this effort, including learning lessons from the increased remote working during the COVID-19 emergency, in order to develop its revised modernisation programme.

44 The savings proposed aim to reflect the application of value for money principles in order to produce budget proposals which are robust and sustainable.

Capital Programme 2020- 2025

45 There has been a significant amount of postponement of the capital programme, and the proposals result in a net reduction of £1m in revenue costs in 2020/21. This is set out in Appendix B. The main changes are as follows:

- the revised capital programme has a net reduction of £0.7m in 2020/21 and an increase of £87.34m in 2021/22. The reduction is due to postponement of capital projects amounting to £64.23m, additions to the capital programme amounting to £3.562m and increase in debenture loans to London Luton Airport Limited (LLAL) amounting to £83m (£60m in 2020/21 and £23m in 2021/22).
- the revised programme includes £64.23m of capital projects postponed to 2021/22 which includes: Century park access road - £45.085m, Crawley road mullti-storey car park - £6.107m, Town Hall refurbishment £2.657m, Vauxhall Way improvements - £1.977m, LBC street lightning led conversion £1.125m, vehicle and plant replacement programme - £0.7m, others – £6.58m),
- Additional projects amounting to £3.562m include: Vale cemetery extension - £2m, NTS/MRF refurbishment - £1.2m and Contingent Labour Joint Venture - £0.36m) and additional debenture loans (2020/21 - £60m and 2021/22 - £23m) to LLAL.
- the revised capital programme’s reduction in cost of borrowing in 2020/21 of £0.975m reflects the postponement of £64.23m of projects in year. Additional borrowing costs incurred for LLAL debentures will be fully recovered.
- the capital financing requirement (CFR) which is the sum of money required from external sources to fund capital expenditure, and represents the Council’s underlying need to borrow for capital purposes cumulatively increased to £86.53m in 2021/22. This is due to increases in capital programme in 2021/22 of £64.23m for the postponed capital projects and additional LLAL debenture loan of £23m as well as a reduction in CFR in 2020/21 of £0.7m).

Capital Programme Governance arrangements

46 The proper governance arrangements of all new projects will be even more vital in the light of the impact of COVID-19 on the Council’s financial position. As noted in the original budget report, 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 also comply with guidance published by HM Treasury namely the “Green Book” and the “Five Case Model”.

Significant Capital Expenditure and Financial Resilience

47 All the projects included in LBC’s capital programme are based on best estimates and some are indicative figures. The Council as part of the capital strategy has to include any capital projects in the capital programmes at the beginning of the financial year based on an outlined business case. However any disbursement is dependent upon Executive approval of a final business case and appropriate Gateway Reviews if necessary.

48 The Housing strategy includes an option to invest in residential properties. The Council already has a strategy to invest in commercial properties. A similar strategy has been developed in order to support any future investment in residential properties. The final business case has to be approved by Executive and proper governance arrangements have to be agreed in order to enable proper monitoring and reporting and facilitate scrutiny.

49 It must be reiterated that the level of borrowing in the overall capital programme is unprecedented. As stated in the original budget report its full implementation depends on the buoyancy of the travel industry at microeconomic level and the overall economy at macroeconomic level. As with any investment the value can go up as well as down. At this stage it is not possible to reasonably assess the longer term risks and uncertainty posed by COVID 19 and every country is trying to adjust to the new normal. In light of this it is worth noting that any potential financial impact on the Council and its subsidiaries may be significant and the level of reserves of the Council may prove not be enough to cope with any further significant risks, macro-economic shocks and/or major incident. Any future decisions by the Council will have to take into account this fact as part of the decision making process and the financial sustainability of both the Council and LLAL. All major projects will also be assessed and subject to scrutiny as and when detailed business cases are produced and will require Executive approval.

Public Health

50 Public health works to protect and improve the health and lives of individuals, families, communities, and populations. In the current COVID-19 emergency, Public Health have been working particularly hard in partnership with colleagues from the NHS providers and Clinical Commissioning Group to help Luton people to stay healthy as far as possible. The current assumption is that all the additional costs of this essential work will be reimbursed by central Government, and that Public Health expenditure remains ring-fenced.

Revenue Budget – Key principles

51 For some years the Council has aimed to set a balanced budget without the use of reserves to pay for ongoing revenue expenditure. The original 2020/21 budget continued that approach. As it does not appear possible to keep to that principle when setting this emergency budget, it is essential that:

- Any use of reserves to fund ongoing expenditure is limited to 2020/21 only, and there is a clear strategy and viable plan to ensure that this does not happen in 2021/22
- Any use of reserves to fund ongoing expenditure does not unduly deplete the Council's reserves. For some years the budget risk management strategy has noted that the risks relating to the Council's reliance on airport funding requires it to keep a larger than average minimum reserve balance. The current situation emphasises just how important this is. When essential reserves are depleted, it means that even more savings are required in future years to rebuild them which means that budgets in future years will need to run at a surplus.

52 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 demonstrating how that position will be maintained;
- Spending plans will be closely aligned with the Council's aims and objectives and are prudent, affordable, and sustainable and based on good governance and sound evidenced backed judgement;
- The Council will maintain a prudent level of reserves and one off gains not used for on-going expenditure;
- Budgets will be continually reviewed and modified to ensure that resources are prioritised and targeted on key objectives and deliver value for money.

53 The level of the contingency provision is unchanged from the original budget.

Costs of Implementing Savings

54 There will be a cost of implementing a number of the savings proposals in terms of redundancy and pension strain arising from staffing reductions. Every effort will be made to redeploy staff to minimise the human and financial impact. However, the voluntary redundancy scheme proposal, if approved, is likely to mean that the costs are greater than in previous years, again impacting on reserve levels. The general reserve – reorganisation will be used to meet the costs.

Treasury Management Strategy

55 The Council-approved Treasury Management Strategy is based on the borrowing and investment required to manage the original budget and capital programme. This is monitored regularly, and government regulations require a mid-year review to assess whether any changes are required to the strategy or to the prudential indicators included in it. The 2020-21 mid-year review will need to consider specifically whether any changes are required as a consequence of the emergency budget. However, treasury management is dependent on the overall levels of capital and expenditure and income, and is unaffected if savings are introduced in some budgets because of the need to spend more elsewhere. If the budget is kept in balance the impact will be limited. There is likely to be some movement in the capital financing requirements for 2021/22 onwards (Appendix B).

Minimum Revenue Position

56 There is no change to the policy statement on how the council will make a prudent Minimum Revenue Provision (MRP) for the year. As MRP is charge on opening balances, the impact as a result of the changes to the capital programme will not impact on the current year's budget.

Scale of Charges

57 There are no changes proposed to the Scale of Charges.

Robustness of the Budget and Level of Reserves

58 The legal requirement under the Local Government Act 2003 for the Chief Finance Officer's views on the necessary level of reserves and on the robustness of the budget to be reported to Council only applies when the level of Council Tax is being set. There is no such legal requirement relating to in-year amendments to the budget as they do not change the council tax setting. Despite this, it is important to review the emergency budget's robustness and its potential impact on levels of reserves.

58.1 The report to full Council of 19 February 2020 sets out my view of the robustness of the original budget and the adequacy of reserves. This statement only considers the impact of the changes that have brought about the need for this emergency budget, and the budget changes themselves, in terms of the additional expenditure and reduced income arising from the Covid-19 emergency response, the savings proposals, and the changes to the capital programme, and the impact that this has on the adequacy of reserves.

58.2 The impact of Covid-19 has put an unprecedented strain on the Council, in terms of impact on services, members, staff, and finance. It has also highlighted that the Council's greatest financial asset, its 100% ownership of the company (LLAL) that owns the freehold of London Luton Airport, is under considerable financial pressure due to COVID -19 and has to deal with any associated risks. The immediate impact of this risk on the Council's finances demonstrates the need for the Council to hold an appropriate level of reserves in order to have sufficient financial resilience to give the Council enough time for the development of plans to address such a sudden resource shortfall.

58.3 The speedy development of this emergency budget, with major savings over and above those approved in February, has been completed soon after the approval of a significant increase in spend to support the Children's Services Ofsted improvement plan, and alongside managing the COVID-19 emergency response (in partnership with colleagues from health and all the other Luton public services). It is a tribute to the calibre of the Council.

58.4 The whole process has been completed in just eight weeks. Many of the savings proposals are subject to statutory consultation, and may require further amendment as a result. The initial risk assessment indicates that for 2020/21, they may only result in £11.24m of budget reductions, rather than the £16.9m shown in the savings schedule – a £5.66m reduction. As a result, there is a risk that the impact on reserves may be much greater than shown in the emergency budget. As mentioned in paragraph 29 of the budget report the Council may have to draw down £13.4m from reserves over two years to achieve the full savings and a balanced budget. It is worth noting that there is an overspend in the 2019/20 budget which has to be addressed as well.

58.5 As mentioned above the budget proposals had to be put in place within 8 weeks and therefore some of the savings proposals are based on limited detailed information and data. As these savings proposals are at an early stage further work needs to be done including developing detailed delivery plans with risk mitigation measures. As a result the budget carries all the inherent risks associated with those projects. The potential use of reserves acknowledges this fact, however further sensitivity and scenarios analysis will be carried out in due course in order to further stress test the savings programme and also the overall budget as and when new information come to light about COVID -19,

58.6 There is also a detailed consultation process and some specific proposals will have to come back for Executive approval.

58.7 Over and above this risk, there is the potential for a second wave of Covid-19 resulting in additional costs, and there is no certainty as to whether Government will be in a position to reimburse further costs that may arise. A key issue both locally and nationally is the pace of economic recovery, and how the safety requirements arising from Covid-19 may impact on that recovery. In this context it is concerning to note the analysis of Centre for Cities, who concluded that Luton's economy was the second most vulnerable to Covid-19 of the large local economies in the country. If the local economy is badly affected it will increase demands on the Council's services as more people become vulnerable and potentially homeless, as well as reducing the Council's income from business rates, council tax and fees and charges.

58.8 The potential for a long period of economic stagnation will also impact on the length of time that the Council's airport income remains well below previously budgeted levels.

58.9 Another issue for the Council, given the size of its capital programme, is the risk of cost-escalation due to additional safety requirements that may be required in the construction industry as a consequence of COVID-19.

The Adequacy of Reserves

58.10 The analysis above shows that there is a real risk of the Council's reserves being depleted by £13m over two years. The reserves identified in the Emergency Budget Report for potential use, the Funding Equalisation Reserve and the Welfare Reform and Recession Reserve, together total £16.4m. Therefore it is essential that efforts continue both to deliver more of the savings levels proposed in the current year, and to develop ways to make the procurement and efficiency savings unachieved from previous years, principally in the homelessness and children's services areas, in order to minimise that call on reserves.

58.11 As stated in the emergency budget report, the COVID-19 emergency has demonstrated how essential an adequate level of reserve balance is, particularly for Luton Borough Council with its levels of commercial income. The fact that it is not lawful for Councils to borrow for revenue purposes makes this even more vital.

58.12 The Council's reserves position and its use is described in paragraphs 31 to 37 of the main report and has to be closely monitored as and when savings are further developed and agreed by Executive for implementation.

58.13 While this overall level of reserves may seem relatively high, it is significantly lower than the levels held by 10 of the 15 other local authorities shown by Cipfa's analysis to be statistically most similar to Luton, and the impact of Covid-19 on London Luton Airport Limited, combined with the analysis by Centre for Cities showing the vulnerability of Luton's economy as a result of the Covid-19 outbreak, indicates that Luton has a greater need for a high level of reserves than other authorities.

58.14 On this basis, while the current level of reserves is adequate, the potential for a reduction in 2020/21 and 2021/22 in excess of the £13.4m held in the Welfare Reform and Recession Reserve and the Funding Equalisation Reserve is to be noted, and should this happen the Council will need to develop a plan to create surpluses in future years to replenish the reserve levels.

Initial Sensitivity Analysis

58.15 The emergency budget assumptions are based on what currently appears to a central case, assuming further government support for COVID-19 expenditure of £6.3million, and existing spend levels. At this point it is very difficult to assess what might be the worst case, if there were to be a sustained second wave of COVID, and if Government was unable to provide additional support to Councils and local businesses in those circumstances. This level of uncertainty is the reason why the revenue budget management proposed for the remainder of the year includes monthly monitoring with the potential of an additional emergency budget report to Executive should that prove necessary. The risk assessments by officers of the levels of savings included in the estimates do provide an element of sensitivity analysis. A significant improvement on the base case position would require MHCLG to support the Council by offsetting some of the LLAL income loss. The worst case scenario would be no LLAL dividend over the entire medium term planning period, which would require the Council to reassess the financial resilience and take appropriate measures to address and achieve an affordable and sustainable budget.

Housing Revenue Account, Schools and Public Health budgets

59 There are no proposed changes to the above budgets at this stage and will be kept under review.

Financial Strategy

60 There are no proposed immediate changes to the Council's overall financial strategy. However, further work will need to be done as the 'new normal' emerges after the COVID-19 emergency, and an assessment of how the strategy needs to change as a result will be incorporated in the 2021/22 budget work.

Section 114 of the Local Government Finance Act 1988

61 There have been various reports in the national and local government press that a number of local authority chief finance officers are considering issuing ‘Section 114’ reports, and this has been described as being like a local authority being ‘bankrupt’.

62 Where an authority recognises that it needs to address the budget issues, and can and does take action to revise the budget effectively, as is proposed in this report, then the need for a Section 114 report does not arise. If action is not taken, or if the actions are not successful in addressing the budget pressures, or if the financial position develops to the point that expenditure will inevitably exceed available resources, then that would trigger another discussion and consideration for a Section 114 report.

63 Section 114 places a duty on the Chief Finance Officer to ‘make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure’.

64 A Section 114 report requires an authority to hold a meeting within 21 days of the report being issued, to determine what should be done to remedy the situation. **As the Council is taking the necessary measures to address the budget gap this year, at this stage there is no need to issue a Section 114 report.**

65 On 11 June CIPFA published a statement on Section 114, reproduced here.

‘The role of S.114 in the current crisis has been the subject of understandable debate. This statement confirms that the statutory responsibilities of the CFO has not changed. However, CIPFA proposes that there should be a temporary modification to existing guidance in order to create an opportunity, within existing statutory limits, to enable an exploration of what further options and/or financial assistance may be available.

‘The proposed modifications are as follows:

- *At the earliest possible stage a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming S.114 requirement*
- *The CFO should communicate the potential unbalanced budget position due to COVID-19 to MHCLG at the same time as providing a potential s.114 scenario report to the council executive (Cabinet) and the external auditor*

‘In practice this means it should not normally be necessary for a s.114 report to be issued while discussions with the government that would address the issue are in progress.’

66 It should also be noted that, despite the wording of Section 114, Councils are not allowed to borrow to cover revenue costs – and an unbalanced budget can result in the de facto use of borrowing.

Goals & Objectives

67 The key goals and objectives are set out below.

1. To revise the 2020/21 budget taking into account the unprecedented situation that has occurred as a result of the COVID-19 pandemic.
2. To revise the capital programme in order to reduce the revenue costs arising in 2020/21.
3. To revise the budget risk management strategy to recognise the risks arising from the COVID-19 emergency.
4. To set up financial governance for 2020/21 to enable the authority to manage the risks arising as a consequence of the COVID-19 pandemic.
5. To amend the medium term financial planning figures in recognition of the impact of COVID-19.
6. To enable the Council to return to the position of having a balanced budget without the use of reserves as soon as possible, and to work effectively in the medium term towards meeting its service aspirations within the level of resources available to it.

Proposal

68 The proposal is to revise the 2020/21 budget by approving the following budget changes.

i. The additional savings proposals as set out in Appendix C
ii. The changes to the capital programme set out in Appendix B
iii. The changes to the Budget Risk Management Strategy set out in the February 2020 budget report.
iv. The overall changes set out in Appendix A

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

Key Budget Risks

70 Appendix B of the original budget report sets out the Council's detailed Budget Risk Management Strategy. The major risks now relate to:

- The financial position of London Luton Airport Limited as a result of the impact of the COVID-19 emergency on its operations, and the impact of that on the Council's budget, particularly in terms of the risk to interest repayments if the company is not stabilised, and the loss of interest payments in the short-term.
- Not achieving the undelivered 2019/20 savings now scheduled to be delivered in 2020/21.
- Not fully achieving the already approved savings set out in the original budget report of February in paragraphs 103 to104 and in appendix M of that report.
- Not fully achieving the new savings proposals set out in this report.
- Significant uncertainties for government and local government finance as a consequence of the impact of the COVID-19 pandemic, increased by the wider uncertainties as a consequence of Brexit
- COVID-19 related expenditure not being fully reimbursed by government.

- 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. ;
- Future changes to the Business Rates Retention Scheme may have significant adverse financial implications.
- Potential ongoing negative impacts on Luton's economic and social structures as a consequence of the COVID-19 pandemic increasing the demands on the Council still further. Analysis by the Centre for Cities concluded that Luton was the second most vulnerable economy post-Covid, in part due to its reliance on the Airport and on vehicle manufacturing.
- Increases in demand for high cost Adult Social Care, Children's services and Homelessness services. These services are demand-led and driven by demographic changes.
- Overspends occurring in capital as well as revenue budgets, and estimated capital receipts not realised.
- Further reductions in specific grants such as New Homes Bonus and Independent Living Fund

71 It is also essential as stated above that robust Integrated Impact Assessments are completed and consulted on prior to implementation of savings to mitigate a risk of challenge of specific budget items.

Stakeholder and Public Engagement and Scrutiny

72 Public engagement on the original budget-setting took place at the beginning of the year, and the Council has been engaging with the public and staff on the emergency budget since 5 May 2020. We have also sought the views and comments-from the public about its emergency budget, asking for ideas as well as asking people to consider signing a community petition to central government requesting government grant to cover the loss of airport income. .

73 Due to the COVID-19 crisis and lockdown, no physical face-to-face meetings could take place. The methodology was therefore adapted to mainly online communication and engagement method (e-briefs, website, emails, webinars, online forms etc). However virtual meetings have also been arranged with community leaders to discuss the proposals in more detail.

74 To date we have had over 300 emails with about 600 savings ideas put forward. A large proportion of the ideas put forward during the engagement are included in the list of savings proposals being considered by members for the emergency budget. This shows that those we engaged with are broadly in favour of many of the areas the council is looking at to make savings.

75 FAQs has been produced and published to explain the financial situation in more detail, counter some of the myths and also to show residents and staff which of their ideas are being taken forward.

76 Some of the key themes/ideas for savings which have been put forward so far include:

- streets and parking – i.e. dim/turn off street lights, stop non-essential road improvements
- council office, buildings and land – i.e. more staff working at home and reducing the council's office estate
- sports, leisure and culture – i.e. review the offer/number of buildings and events the council funds
- parks, open spaces and grass – i.e. have fewer grass cuts / create meadows with wild flowers
- capital projects – i.e. stop/delay major building and infrastructure projects where savings can be achieved
- pay and salaries – i.e. freeze recruitment at the council and have fewer higher-paid officers and managers
- debt recovery – i.e. chase more of the outstanding money owed to the council
- income generating ideas – i.e. organise fundraising events, establish a lottery fund, trade more of the council services for profit
- community and volunteering – i.e. get more volunteers to help with street services and other council services such as supporting the elderly and cleaning the streets.

77 Some of the key concerns raised by residents during the engagement so far include:

- cutting services to vulnerable people and the impact this could have on them
- nervousness about any changes to black bin waste collections (but some support for reduced garden waste collections)
- that there is not enough clarity on the budget to make informed views.

78 The detailed interim engagement report is included at appendix E

79 It is important to note that those schemes impacting on service levels and staffing numbers are subject to specific consultation prior to any decision being taken on their implementation.

80 The views of Finance Review Group on this report will be given to Executive at the meeting, and, as noted, in this report, the views of Scrutiny will be sought on individual requests for additional LLAL debenture loans prior to those requests being considered by Executive.

Equalities/Social Justice Implications – Report by the Social Justice Unit

81 The Council has a duty under the Equality Act 2010 to demonstrate its consideration of the Public Sector Equality Duty as part of the process of decision-making. The Council is required to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations when making decisions on budget proposals. This involves an understanding of the potential impact of policy and decisions on different people and evidence on how decisions are reached.

82 It is also relevant to show where the Act states that compliance with the duty may involve treating some people more favourably than others and this will be around those already at a disadvantage which may be because of disability or race.

83 While there is no legal requirement to conduct an Integrated Impact Assessment (IIA), the process enables a rigorous assessment of decision-making and identifies any negative and positive impact on people with protected characteristics: Age, Disability, Gender reassignment, Marriage and Civil Partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), Pregnancy and Maternity, Race (ethnic or national origins, colour or nationality), Religion or Belief (including lack of belief), Sex (male/female), Sexual orientation.

84 The IIA process will help:

- Understand the potential effects of the budget proposals by assessing the impacts on
- Different groups
- Identify any adverse impacts and develop actions to remove or mitigate them
- Make transparent decision-making based on evidence

85 An initial review of all the budget proposals was undertaken using the IIA Impact Table to help give an early indication of likely impacts on particular groups. For proposals that did not have any disproportionate impact for service users/residents/staff, it was agreed that an IIA was not required.

86 This initial high-level overview of the assessment of the budget proposals helps give an early indication of likely impacts on particular groups. The assessment focuses on service based proposals that have been identified as having a direct impact on service users/residents. Impact assessments are also undertaken where staff are involved and at risk of redundancy, or will experience major changes to their job role. As the majority of the proposals are still too early in the development and implementation process, it was not possible to undertake a full IIA.

87 It is important to note that implementation of the proposals will not take place until a full IIA has been undertaken.

88 Consultation and engagement will be integral to all major proposals. This is to ensure that the Council is not in breach of legislation and importantly, is being open and transparent in its approach and in its consideration of the outcome of any specific proposal.

89 Service areas will gather relevant data and evidence from consultations to support a full assessment of their proposals, if required. IIAs of budget proposals and implementation plans will be published following a rigorous assessment of equality impacts. Further assessment will be made through the budget consideration process and in relation to implementation, if budget proposals are accepted.

90 The emergency budget savings estimated for 2020/2021 amount to £21.6m. Departments are meeting the savings as follows;

Department	**Savings Amount £m**
Chief Executive’s	1.004
Customer & Commercial (incl CTR for 21/22)	4.350
Place & Infrastructure	5.956
Wellbeing and Public Health	7.124
Children’s, Families and Education	3.173
Total	**21.607**

91 The 68 proposals (with draft IIAs) that underpin this budget are broken down by department as shown in the table below and indicate where the greatest impact will be.

Department (No. of proposals with draft IIAs)	No. of Proposals with potential negative impacts
Chief Executive's (6)	5 – impact on jobs
Children's, Families and Education (13)	9 - impact on poverty 7 - impact on age, race, jobs 6 - impact on disability and health 5 - impact on sex 4 - impact on skills 3 - impact on cohesion
Customer and Commercial (15)	5 - impact on race, sex, disability, poverty 4 - impact on jobs 3 - impact on health
Place and Infrastructure (15)	5 - impact on poverty 3 - impact on age 2 - impact on disability and health 1 - impact on race and jobs
Wellbeing and Public Health (19)	13 - impact on jobs 11 - impact on age, race, poverty and health 7 - impact on sex 3 - impact on disabilities 5 – impact on pregnancy and maternity 2 – impact on religion/belief 3 – impact on gender reassignment 1 – impact on sexual orientation

92 The departments with the largest potential impact is Children's, Families and Education and Wellbeing and Public Health. The savings for these two departments is approximately £10m.

93 The proposed base budget includes savings of £4 million in changes to organisational structures. One of the proposals relates to a £500,000 saving in the number of corporate and service directors on the senior leadership team. It is anticipated that a minimum of 365 posts (12%) across the Council will be affected, which will be managed through vacancy deletions and voluntary separation, to minimise impact on existing staff. A number of these posts are currently vacant, and it is envisaged that some roles will be transferred to partner organisations, including schools. However, the biggest impact on staff where the majority make up is female, will be in school catering and adult social care, which will disproportionately affect female staff. The Council's Organisational Change and active redeployment procedures will be used to minimise the number of staff actually made redundant.

Budget Report Appendices

Appendix A – Amendments to the 2020/21 Revenue Budget
Appendix B – Amendments to the 2020-2022 Capital Programme
Appendix C – Savings recommended for inclusion in the 2020/21 Revenue Budget
Appendix D – Reduction in income due to pressures caused by COVID-19 including LLAL.
Appendix E – Detailed Interim Engagement Report

Appendix F. – Support from Central Government

Background papers
Emergency Budget consultation papers, held by Adam Kearney, Luton 546178

IMPLICATIONS

For Executive Reports:

- **ALL GREY BOXES MUST BE COMPLETED**
- All statements must be cleared by an appropriate officer

Legal	**Clearance Agreed By**	**Dated**
In compliance with their statutory responsibility and in accordance with the provisions of the Local Government Finance Act 1992 the Council set and approved a balanced budget in February 2020. The provisions of section 25 Local Government Act 2003 require that, when the Council is 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. The Council has a duty to maintain a balanced budget throughout the year and, accordingly, are required to regularly monitor their financial position. Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor its budgets throughout the financial year, using the same figures for reserves as were used in the original budget calculations. For the reasons set out in this report the Council must take necessary appropriate action to deal with the significant deterioration in the financial position since February 2020 and return to a balanced budget position. Having regard to the Equality Duty an initial assessment of the proposals has been undertaken and Appendix C to the report sets out the individual savings proposals where specific equality impact assessments will need to be undertaken, as relevant proposals are developed, and considered prior to their implementation. In addition, and where relevant, consultation and engagement will be undertaken and considered prior to implementation In accordance with Section 106 Local Government Finance Act 1992 members who are two months or more in arrears with their Council Tax must declare	Raj Popat, Principal Solicitor	17th June 2020

this to the meeting and must not vote on budget recommendations, as to do otherwise can be a criminal offence.		

Finance	**Clearance Agreed By**	**Dated**
It is a statutory requirement for the Council to have a balanced budget. This is an emergency budget for the current financial year 2020/21 and hence has to be read in conjunction with the budget approved by the Council back in February 2020. All the financial implications are addressed in the body of the report and my assessment as S151 Officer of the adequacy of reserves and robustness of estimates are covered in paragraphs 58 to 58.15 As mentioned in the report further discussions are taking place with MHCLG and also LLAL is in discussion with the airport operator LLAOL. The financial situation will be kept under review and any new significant information will be assessed in order to determine any impact on this Emergency Budget and the financial resilience of the Council current and future.	Dev Gopal, Service Director (Finance & Audit)	16 June 2020

Integrated Impact Assessment (IIA) – Key Points		
Equalities / Cohesion / Inclusion (Social Justice)	**Clearance Agreed By**	**Dated**
A full assessment of the potential impacts is identified in paragraphs 81-93	Maureen Drummond, Interim Equalities Manager	16 June 2020
Environment	**Clearance Agreed By**	**Dated**
There are no direct impacts of approving this budget. However in setting the level of resources available, and particularly with the Council committed to being zero carbon by 2040, indirectly there are a number of areas of capital and revenue that could contribute to reduce CO_2 / improve air quality and encourage sustainable travel.	Keith Dove, Strategic Policy Adviser	16th June 2020
Health	**Clearance Agreed By**	**Dated**
Community Safety	**Clearance Agreed By**	**Dated**

Staffing	**Clearance Agreed By**	**Dated**
Other	**Clearance Agreed By**	**Dated**