

## **Budget and Performance Panel**

# **Robustness of Budgets and Affordability of Capital Investment Plans**

**26 February 2008**

## **Report of Head of Financial Services**

### **PURPOSE OF REPORT**

To provide Members of the Panel with information of the s151 Officer's views regarding robustness and affordability of the Council's spending plans.

**This report is public**

### **RECOMMENDATIONS**

(1) **That the report be noted.**

#### **1 Introduction**

- 1.1 The Local Government Act 2003 placed explicit requirements of the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. . In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, which include borrowing limits and relate mainly to capital investment plans, all matters to be taken into account are reported to Council for consideration.
- 1.2 For 2008/09 the Section 151 Officer has provided interim reports to Council on 06 February and Cabinet on 19 February. She will report finally to Budget Council on 27 February 2008.
- 1.3 As the agenda for Budget Council was not available at the time of writing this report, **Appendix A** provides a copy of the Section 151 Officer comments given on the equivalent report received by Council on 28 February 2007, regarding the 2007/08 budget process. Members may also wish to bring their copies of the 2008/09 Budget Reports to Council on 27 February 2008 to the meeting, as they will have been distributed by then.

- 1.4 The Section 151 Officer will be in attendance at the Panel meeting to answer any questions.

**SECTION 151 OFFICER'S COMMENTS**

The s151 officer has prepared this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

N/A

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**BUDGET COUNCIL FEBRUARY 2008 - SECTION 151 OFFICER'S COMMENTS**

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet and Council reports have already included details of this advice, together with the risks and assumptions underpinning the budget process. A summary is provided below for information.

In addition the legislation requires that the Council should have regard to the s151 officer's report, hence the recommendation.

**Reserves and Provisions**

- Specific earmarked reserves and provisions are satisfactory at the levels proposed, given that measures are being taken to address further the Council's approach for providing for renewal, replacement or refurbishment of the facilities and infrastructure required to support service delivery. In addition, measures are in place to manage and reassess other key issues such as Fairpay / Job Evaluation.
- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position.

With regard to General Fund balances, £1M represents just less than 4½% of the net Revenue Budget. In recognising that the setting of minimum levels is based on judgement, rather than it being an exact science, it is advised also that some degree of tolerance (±5%) would be acceptable in managing balances for the three year period.

At present the General Fund budget proposals allow for the use of any surplus balances in the following way:

- General phased use over the three years from 2007/08, to help smooth out Council Tax increases in future years and to give the Council time to plan and implement any changes in service levels / spending as required.

Whilst indirectly, this may mean that the Council uses balances to support recurring spending, this is done in such a way to avoid over reliance and to allow the Council to achieve a sustainable budget position in future years. This is in accordance with the Council's proposed medium term financial strategy and ties in broadly with its current three year planning cycle for revenue.

**Robustness of Estimates**

A variety of exercises has been undertaken to establish a robust budget for the forthcoming year. These include:

- Producing a continuation budget, taking account of service commitments, asset renewals, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's priorities and its associated service activities and spending / income generation plans. This has been supported by the Star Chamber exercise, giving greater time to develop and plan for budget proposals, and by wider consultation.

- Reviewing the Council's medium term financial strategy and planning, following its adoption last March, together with other corporate financial monitoring information produced during the year.
- Undertaking reviews of the Council's Capital Investment Strategy and affordable borrowing levels to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the 2007/08 budget are robust. The major areas of uncertainty, however, and therefore risk, relate to:

- Developments associated with Access to Services. Only as detailed plans for service delivery and the accommodation & facilities needed to support them become available, will it be possible to appraise fully the robustness of the estimates and cost assumptions generally.
- Job Evaluation. Whilst some funding has been provided for indicative interim costs associated with the exercise, as yet there has been no detailed consideration or modelling of the ongoing effects.
- Concessionary Travel. This covers both the forthcoming implementation of Smartcard usage to determine actual costs to authorities, and also the uncertainties surrounding the responsibilities and administration arrangements for the new Scheme to be brought in for 2008.
- Outcome of Unitary Bid and roll out of neighbourhood management approach. Should the bid be successful, this will require a complete review of the Council's financial planning and supporting arrangements.
- Assumed income from property sales. As reported previously, these assumptions are much larger than in recent years, and the recent resolutions of Cabinet / Council should help provide alternative options if difficulties arise.
- Future levels of Government support, and the impact of the Comprehensive Spending Review 2007 and assumed 'Efficiency' targets. This is more of an issue for 2008/09 onwards but at present, a 2% year on year increase in Formula Grant is assumed.

It is anticipated that all the above should become clearer during 2007/08, and the Council's financial monitoring, reporting and planning processes should enable timely identification of any additional actions required. Measures to provide some flexibility (through levels of reserves and budget cash limits, and the setting aside of any underlying borrowing capacity arising from Luneside) also help mitigate these risks, as do the provisions of the Financial Regulations.

### **Affordability of Spending Plans**

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax and housing rents. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- Availability of capital resources, including capital grants, capital receipts, etc
- Existing commitments and service / priority changes
- Revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- Future years' revenue budget projections, and the scope to meet borrowing costs
- The likely level of government support for borrowing and for revenue generally

- The likely need for further capital investment and prudential borrowing, as yet unquantified, to take forward any options arising from the wider Accommodation review.

In considering and balancing these factors, the capital proposals are based on prudential borrowing totalling £1M over the period from 2007/08 to 2011/12. This has been built into the Prudential Indicators, also for approval by Council.