CABINET

Budget and Policy Framework Update 2016 to 2020 – General Fund Revenue Budget and Capital Programme
16 February 2016

Report of Chief Officer (Resources)

PURPOSE OF REPORT To inform Cabinet of the latest budget and council tax position so it can make recommendations back to Council in order to complete the budget setting process.					
Key Decision		**Non-Key Decision**		**Referral from Officer**	**X**
Date of notice of forthcoming key decision	18 January 2016				
This report is public.					

OFFICER RECOMMENDATIONS:

(1) That in light of the final local referendum thresholds set by Government, Cabinet considers the options regarding council tax as set out in section 4 of the report and determines whether it wishes to propose any changes for referral on to Budget Council.

(2) That Cabinet considers the feedback from February Council as set out in section 8 of the report, and makes any recommendations as appropriate.

(3) That Cabinet endorses the review of Provisions, Reserves and Balances undertaken by the s151 Officer, and notes her advice regarding minimum Balances increasing by £0.5M to £1.5M, subject to annual review.

(4) That subject to any changes arising from the above and any further budget amendments arising in the Cabinet meeting, Council be recommended to approve for referral on to Budget Council:

- **the 2016/17 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (current position at Appendix A);**
- **its supporting budget proposals (current proposals at Appendix B (i) and (ii));**
- **the resulting position on provisions and reserves (current position at Appendix D); and**
- **the resulting Capital Programme (current position at Appendix E).**

(5) That the Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy accordingly, for referral on to Budget Council.

1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 26 January and at Council on 03 February. Numerous questions were raised at both meetings and at the Council meeting, specific feedback was provided on certain matters. This is expanded on later, for Cabinet's consideration.

1.2 Council did support Cabinet's recommendations, however, and it was resolved:

- that the 2015/16 Revised Budget be approved, with the net underspending of £503K reducing the in-year call on Balances from £1M to £470K.

- that a City Council tax increase of 1.99% for 2016/17 together with a year on year target of 1.99% for future years be approved, subject to local referendum thresholds.

1.3 This report builds on these points and on other updated information in order that final budget recommendations can be made to Council on 02 March. The associated update to the Corporate Plan is now scheduled for consideration at March Cabinet, prior to being referred on to April Council.

2 GENERAL FUND REVENUE BUDGET SUMMARY AND FINANCIAL STRATEGY

2.1 Updated revenue proposals are set out at ***Appendices A and B (i) & (ii),*** and are summarised in the table below.

	2016/17 £'000	2017/18 £'000		2018/19 £'000	2019/20 £'000
Net Spending / draft budget proposals forecasts as reported in January:	**17,158**	**17,598**		**19,936**	**20,261**
Further Base Budget Changes	70	98		79	52
Recommendations Elsewhere on Agenda	(41)	(56)		(57)	(59)
New Homes Bonus Assumed Changes	-	(38)		(18)	(32)
Cabinet's Savings Proposals	(1,161)	(2,668)		(2,805)	(2,883)
Cabinet's Growth Proposals	175	80		86	88
Contributions to / (from) Balances	19	93		-	-
Updated Draft Budget Proposals	**16,220**	**15,107**		**17,221**	**17,427**
Resulting in: **Estimated Budget Deficits / Savings Requirements**	**0**	**0**		**2,332**	**2,807**

2.2 The key points are listed below:

- Reports elsewhere on the agenda set out proposals in connection with the Emergency Call Centre and Car Parking, amongst other things. At present the draft budgets simply assume that the recommendations on these items will be approved, and so the budgets may change further depending on Cabinet's actual decisions.

- Various minor updates and presentational changes have been made to the base budget figures and savings and growth proposals, to reflect latest best estimates, timing considerations and inflation.

- The review of provisions and reserves has now been completed (see section 6) and overall the changes are budget neutral.

- The draft budgets are based on a 1.99% council tax increase each year, but this matter now requires some reconsideration following the final Settlement (see sections 3 and 4).

- In terms of Balances, next year's draft budget currently assumes a £19K contribution to Balances with £93K being contributed the year after, but these would change if Cabinet's budget proposals change.

2.3 The current budget position for 2016/17 is balanced, as is 2017/18.

2.4 Cabinet is now required to finalise its full budget proposals, taking account of any proposed changes to council tax, and to make recommendations to Budget Council for a balanced budget in 2016/17 (at least). In doing so, it is requested to consider the various matters outlined in this report. It is stressed that figures are subject to rounding adjustments, prior to them being finalised for Budget Council.

2.5 The MTFS also needs to be updated to reflect Cabinet's budget proposals and other key information. Delegated authority is sought to complete this task in order that the full MTFS can be presented to Budget Council. There are no other substantive changes proposed to the Strategy, however.

2.6 Once approved, as usual the Strategy and associated projections will continue to be reviewed and updated regularly. In this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

3 FINAL LOCAL GOVERNMENT SETTLEMENT

3.1 Government announced the final Settlement for 2016/17 on 08 February and the Local Government Association (LGA)'s brief overview is attached at ***Appendix C*** for information.

3.2 Whilst key aspects are unchanged or do not impact directly on the City Council, there are some slight changes to the very broad Government assumptions on New Homes Bonus (NHB) allocations for 2017/18 onwards. In the coming year, better modelling of future NHB projections can be undertaken. For now, the budget projections have been updated simply to reflect the latest Government figures.

3.3 Cabinet will see that authorities have until 14 October 2016 to take up the four year Settlement offer, but no other details are available yet. This will also be considered in the next few months therefore.

3.4 The most significant change coming from the final Settlement relates to local referendum thresholds. For 2016/17, all shire districts can now increase their Band D council tax rates by the greater of 1.99% or £5, without having to hold a referendum. In the provisional Settlement, only those districts whose rates were in the lowest quartile had the £5 flexibility.

3.5 Whilst Council has already passed a resolution regarding the level of council increase for 2016/17 onwards, it was subject to local referendum thresholds and as they have now changed, it is open to Cabinet to reconsider its council tax proposals. Options are presented in the following section.

4 COUNCIL TAX

4.1 As a 1.99% increase in council tax only amounts to £4.05 in 2016/17, then the Council now has the flexibility of considering up to a £5 increase and indications are that this may apply up to 2020. The three most obvious options are summarised in the following table for Cabinet's consideration. These recognise that the Council has already chosen to retain its strategy of maintaining steady increases to help protect service delivery, taking account of referendum thresholds.

	2016/17	**2017/18**	**2018/19**	**2019/20**
Option 1 Retain Approved Increases:	**1.99%**	**1.99%**	**1.99%**	**1.99%**
Band D Equivalent	£208.02	£212.16	£216.38	£220.69
Net Savings Requirement	***£0M***	***£0M***	***£2.332M***	***£2.807M***
Alternative Option 2 Increases:	**1.99%**	**£5.00**	**£5.00**	**£5.00**
Band D Equivalent	£208.02	£213.02	£218.02	£223.02
Reduction on Net Savings Requirement	***£0K***	***£35K***	***£67K***	***£97K***
Total Value over Period				***£199K***
Alternative Option 3 Increases:	**£5.00**	**£5.00**	**£5.00**	**£5.00**
Band D Equivalent	£208.97	£213.97	£218.97	£223.97
Reduction on Net Savings Requirement	***£38K***	***£73K***	***£106K***	***£136K***
Total Value over Period				***£353K***

4.2 Cabinet is requested to consider the options and to determine whether it wishes to propose any changes from the 1.99% currently approved for next year, and as a target for future years.

4.3 Subject to no other budget changes arising, if council tax was increased by more than 1.99% then this would result in estimated Balances increasing over the next two years, meaning that more funds would be available to support the budget in subsequent years.

4.4 In very simple terms, the difference between a 1.99% and a £5 increase starts off at 95 pence per year (or 2 pence per week) for a Band D property.

5 BUSINESS RATES

5.1 As previously reported, legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund must be made each year for council tax (15 January) and business rates (31 January).

5.2 Council tax has already been calculated and reported. For business rates, the calculation of any surplus or deficit remains very complicated and subject to huge year on year fluctuations, predominantly because of the impact of rating appeals.

5.3 The estimated 2015/16 deficit on the Collection Fund in relation to business rates has been determined as £14.3M. This is mainly due to the settlement of two significant rating appeals for the power stations, and the associated repayment of transitional relief due back to the Government.

5.4 After allowing for these changes, the provision for successful appeals to 31 March 2016 stands at £9.8M. This is much reduced from the £27.8M balance at the end of last financial year. The latest provision is based on national average settlement figures but as has been seen lately, there is still much scope for actual settlement values to be different. The actual gross value of appeals outstanding stands at around £14M.

5.5 Now that it has been finalised, the estimated deficit will be split between the Government and relevant precepting bodies as follows:

	£'000
Government Share (50%)	7,167
County (9%)	1,290
Fire (1%)	143
City Council (40%)	5,733
Total	**14,333**

5.6 The City Council's share of £5.7M must be charged to the Revenue Budget during 2016/17, but it is only an estimate and will no doubt change before the end of the year. By law, it is disregarded for the purposes of setting council tax. This is because even if a deficit still remains at outturn, then the Council would be protected financially through the 'Safety Net' mechanism. This guarantees a minimum level of retained business rate income for the Council each year.

5.7 That aside, there is still the potential for some business rates growth to be receivable in the current year and in 2016/17 – but as there are still further significant appeals outstanding, that potential growth cannot be relied upon.

5.8 Looking forward there are some critical factors – 2017 Revaluation, 2019 scheduled decommissioning of Heysham 1 Power Station, and 2020 implementation of full business rates retention – that could, potentially, have huge implications for the Council's financial planning. Currently their likely outcomes cannot be predicted or modelled with any confidence, however.

5.9 Finally, attention is drawn also to the Business Rates Retention Reserve, which is outlined in the next section.

6 PROVISIONS, RESERVES AND BALANCES

6.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and Balances.

6.2 Earmarked Reserves

6.2.1 For earmarked Reserves, some changes have been actioned by the Chief Officer (Resources) as s151 Officer:

Apprenticeships, Highways and Capital Support Reserves
The bulk of these reserves are no longer needed, with the County Council taking back Highways functions from next year, contractual liabilities being settled regarding West End properties and the Apprenticeship Scheme now up and running without the need for up-front funding. £70K has been left in the Highways Reserve for the time being, to deal with any costs or deficits arising in winding up the Highways account. It will then be closed at outturn, with any remaining balance transferred out at that time. Similarly, a £50K balance has been left in the Capital Support Reserve.

Corporate Property and Markets Reserves
The Markets Reserve has been merged into the Corporate Property Reserve (which would then be used to meet any costs necessary regarding the markets as well as the property portfolio more generally).

Invest to Save
This Reserve has been increased by £350K. Its use is subject to Cabinet approval. In due course, at 2016/17 revised budget and outturn consideration will be given to using this reserve to help fund investment at Salt Ayre Sports Centre, to reduce other financing costs. This is subject to review however, dependent on the progress being made in balancing the budget over the medium term to longer term.

Restructuring (Budget Support)
This reserve has increased by £147K and its use has been widened, to cover any ancillary costs associated with delivering approved budget changes or other Council/Cabinet approved actions. (For example, providing expert/professional support on Canal Corridor, Museums feasibility, any future potential decommissioning of CCTV or other facilities, etc.) It will still cover costs associated with early termination of staff and future pay and grading reviews.

Welfare Reforms
£190K has been transferred into the Bad Debts provision to increase the coverage for housing benefit overpayments to 80%, linked to recovery risks associated with the roll out of universal credit. The balance remains available to help fund any costs associated with Government's welfare reform agenda.

Business Rates Retention (BRR) Reserve
This reserve is used to manage the Council's exposure to fluctuations in business rate income. Currently the Council has annual exposure of around £400K in two years (2015/16 and 2016/17). If the reserve has to be used for the current year, the need to provide cover for 2016/17 will be reassessed at that time and if needed, any additional contribution would be taken from Balances.

6.2.2 In summary, the earmarked reserves and provisions changes are as follows:

	£'000
Apprenticeships Reserve	(40)
Capital Support Reserve	(248)
Highways Reserve	(209)
Corp. Property / Markets Reserves (net)	0
Invest to Save Reserve	+350
Restructuring / Budget Support Reserve	+147
Welfare Reforms Reserve / Bad Debts Provision	0
Net Transfer	**0**

6.3 **Revenue Balances**

6.3.1 In terms of Balances, the s151 Officer's latest advice is set out below:

- Balances are now expected to amount to around £4.1M by the end of this financial year.

- As was adopted a year ago under the Council's existing Medium Term Financial Strategy (MTFS), in broad terms the working principle is that surplus Balances would be used to help manage the risks, lead-in times and up-front investment costs associated with implementing savings measures over the medium term.

- The position assumes that that there will be no significant overspending occurring in either the current or next financial years.

6.3.2 This is still an acceptable stance to take, alongside Council's approach for increasing council tax and its commitment to implement the net budget reduction programme it is embarking on.

6.3.3 Drawing on that programme, the Council has made really good progress in identifying up to £2.8M of annual net savings measures that more or less balance the next two years' budgets. Whilst estimates are reasonable and robust, clearly there can never be any guarantee that they will all prove 100% accurate and therefore this increases the Council's budgetary risk profile whilst such savings measures are being implemented. Furthermore, the Council has increased its financial risk profile further by increasing assumptions on aspects like staff turnover savings, as an example (the provision has increased from £200K to £400K, as reported back in September/December.)

6.3.4 Also the need to make further massive savings to the year 2020 is now greater, firmer, and clearer and may be perceived as being more 'real', given Government's recent Spending Review and the four year Settlement offer. A year ago the Council had no firm idea of how its Government funding may reduce over the next few years. Now it does have that view, and the reductions are greater than indicated a year ago.

6.3.5 Taking these factors into account therefore, the Chief Officer (Resources), as s151 Officer, advises that the minimum level of General Fund Balances should be increased by £0.5M to no less than £1.5M on the basis that other provisions and reserves remain broadly as set out in this report. This advice takes account of the longer term to 2020, and not just the shorter term. Given future funding pressures and risks, it is expected that surplus funds above that minimum level will be needed to help address (but not resolve) the budget challenges from 2018/19 onwards.

6.3.6 To help demonstrate this, the Council needs to make savings currently estimated at £5.1M over the two years 2018/19 to 2019/20 - this is just the combined total of those years' savings requirements. This is £2.4M more than the estimated surplus balances of £2.7M for the period.

6.3.7 The minimum level of Balances does need to be kept under regular review, however. Once the current savings proposals are implemented fully, the Council will have better information on its financial performance and planning. If all goes well, the advised minimum level of Balances is likely to reduce - but the converse is also true.

6.3.8 The s151 Officer's advice takes account of a number of other key risk considerations:

- The Council continues to demonstrate its ability to deliver ongoing savings through efficiencies, minor reductions to services, and income generation, as part of its financial strategy. In doing so, it accepts the associated increase in its risk appetite.

- Capital financing risk exposure is manageable given current financing assumptions, the outcome of the Luneside East Lands Tribunal, and future intended reviews (e.g. the disposal strategy, which is expected to identify more opportunities to generate capital receipts).

- Finally, on the downside, as other public sector partners address their own budget shortfalls, this in turn may well add further pressure onto the City Council. On the upside, however, there is still some possibility of increasing business rate income from growth, at least for a period.

6.3.9 As a very simple measure, the inherent value of the risks referred to above exceeds by far the total of all available General Fund reserves and balances. Whilst it is not the case that all these risks could fall due immediately, the information should help Members appreciate the need for holding Balances and reserves more generally. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

6.3.10 The review of all Balances, provisions and reserves is reflected in ***Appendix D*** for Cabinet's consideration. The full policy will be presented to Budget Council.

7 **GENERAL FUND CAPITAL INVESTMENT**

7.1 The current draft programme for the period to 2019/20 is included at ***Appendix E.***

7.2 The full movement from the original approved programme is summarised below:

	Gross Programme	**Change in Underlying Borrowing Need: CFR**
	£000	**£000**
Original Approved Programme (2015/16 to 2019/20)	**29,786**	**+13,049**
Changes reported to Cabinet 01 December	+4,159	+2,057
Changes reported to Cabinet 19 January	--	-11
Further Changes:		
Growth Proposals		
Salt Ayre Sports Centre – Developer Partnership	+5,000	+5,000
Morecambe Area Action Plan (Improving Streets)	+1,031	+511
Energy Efficiency Works	+1,376	+1,376
Other Changes:		
S106 Highways Works	+517	--
Morecambe Area Action Plan (Improving Streets)	+45	--
Disabled Facilities Grants	+2,720	--
Resulting Draft Capital Programme (to 2019/20)	**44,634**	**+21,982**

7.3 The main points arising are as listed:

- The draft programme has been updated to reflect latest spending profiles, particularly between 2015/16 and 2016/17, but this has no impact on the 5-year programme total.

- Disabled Facilities Grant (DFG) funding for 2016/17 has just been announced, giving an 87% increase over the current year's original allocation. In line with previous practice, the level of funding assumed in subsequent years has also been increased although that is by no means guaranteed. There has been no time to assess the resourcing and fee generating implications of the increased funding level; this will be picked up during next year.

- The most significant capital proposal relates to Salt Ayre and the proposed involvement of a developer partner. The aim of this is to transform the existing non-swimming facilities into a modern, flexible operation that meets the needs of customers today but can also change, as needs and trends change. The facility would remain in Council ownership and management, but it would draw in expertise from the private sector to help ensure its success; establishing long term financial viability is a key objective. In terms of capital financing, at present it is assumed that the Council would increase its underlying borrow requirement to finance the indicative capital investment of £5M, with the financing costs being met from additional income achieved through greater usage of the facilities. As detailed plans are agreed, the exact financing methods would be reappraised and as mentioned earlier, it may be the case that some reserves are used, to help reduce the ongoing financing costs. The proposal is to be considered by Budget and Performance Panel at its February meeting.

- Similarly, the invest to save scheme regarding energy efficiency is also now included with broadly the same financing principles.

7.4 The current year's Revised Programme now stands at £7.695M. During the next four years, a further £36.939M of investment is planned, giving a total 5 year programme of £44.634M.

7.5 Overall the programme is balanced, allowing for a net increase of £21.982M in the underlying need to borrow (known as the Capital Financing Requirement or CFR). Other than for Cabinet's growth proposals, this has not changed from the position reported to January Cabinet. Other programme changes are financed predominantly by a combination of external funding, use of reserves and s106 monies.

7.6 As is highlighted each year, appropriate arrangements will be put in place to progress schemes, especially given the extent of further organisational change and service reviews that are either planned or underway. Inevitably though, there will be some disruption and disturbance to services and facilities.

8 DETAILS OF CONSULTATION

8.1 This was outlined in section 1 of the report. Cabinet is requested to consider the following feedback, which arose at February Council. Officer advice is also provided on the issues raised.

a. **Amend the Medium Term Financial Strategy to allow a zero based budgeting approach:**

Officer Comments: The Council's general budget approach is set out in the MTFS, which states at section 8.2.1:

The Council has taken an incremental approach to budget setting for 2015/16 and the future years' forecasts underpinning this Strategy. Broadly speaking, this means that the current year's budget provides the starting point for next year's. It is based on the assumption that unless any specific decisions are taken to determine otherwise, services and activities will continue at the same level from one year to the next. This does not preclude efficiency or innovation being sought in service delivery, however. Indeed efficiencies are the first priority for achieving budget savings and this is reflected later.

The MTFS goes on to explain more about budget preparation and also states that "*consideration maybe given to other budgeting approaches such as zero-based budgeting, if specific circumstances warrant it*."

The MTFS does not currently preclude a zero based budgeting approach therefore, and in some situations where new activities are being introduced for example, the approach is applied. A more fundamental, corporate wide zero-based budgeting approach would be resource intensive and would therefore require up-front investment, however. In choosing whether to adopt such an approach, the Council would need to consider whether doing so would be worthwhile. The Officer view is that for now, given the progress being made on the medium term budget and the work already planned for next year, there is currently little benefit to be gained from a change now, but it may be something to consider looking further ahead. There could be some merit in re-establishing key policy reviews to drive a more policy-led budget though. Put simply, given the enormous financial challenges and the work that has brought, there has simply not been enough time to review, develop and update some policies as planned.

b. Grant fund the Marsh Community Centre from the Housing Revenue Account (HRA) budget instead of the General Fund:

Officer Comments: This is covered in the separate HRA update report.

c. Fund the £100K for ICT (digital workplace) from the invest to save reserve to allow PCSO funding for another year

Officer Comments: At present it is assumed that Salt Ayre redevelopment would take priority in the future use of this reserve to help reduce financing costs, but this could be changed. (See earlier comments).

As an aside, it may be useful to outline more on what 'digital workplace' involves. The proposal would provide capacity for the Council to help develop plans for transforming its service provision, in ways that customers prefer, using technology to do so. Leading on from this, the use of modern technology and systems would allow the Council to gain better intelligence to inform service design, and also become more efficient and/or save money through having smarter, more streamlined processes. Assuming that the budget proposal is approved, a Cabinet report will be produced early in the new financial year, to expand on this.

d. Review the periods of discretionary discount and exemption from council tax currently provided for empty homes.

Officer Comments: It is not possible for any such review to impact on the 2016/17 budget but it could be done during next year, to feed into 2017/18. Council tax charging is an example of a policy area that there has not been enough time to review, given other budget work demands.

8.2 Separately, at February Council a motion was passed regarding museums and in particular, it requested the County Council to review the option of creating a financially sustainable Lancaster-wide museum organisation of some kind, with the City Council supporting that principle (Council minute 120 refers).

8.3 In view of the above, attention is drawn to a related review in Cabinet's future year proposals set out in the notes to Appendix B (ii), item (g). From an Officer perspective it is not thought than any obvious conflict exists – for example, in the event that a financially sustainable model is not possible, then mothballing of the Maritime and Cottage Museums would be appropriate options for consideration also. This is drawn to Cabinet's attention to ensure that this is the case.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

9.1 Cabinet is now requested to finalise its preferred council tax, revenue budget and capital programme proposals for referral on to Council, using the latest information as set out in this report.

Council Tax
Three basic options are set out in section 4.

Revenue Budget
Cabinet may adjust its revenue budget proposals, as long as the overall budget for 2016/17 balances and fits with the proposed council tax level. The Chief Officer (Resources), as s151 Officer, continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

Capital Programme
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2015/16 and 2016/17 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good practice to do so – or at least have clear plans in place to manage the financing position over that time.

In deciding its final proposals, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

Other Budget Framework Matters (Reserves and Provisions / MTFS)
Given known commitments, risks and approved council tax targets there is limited flexibility in financial terms, but depending on priorities Cabinet may consider putting forward alternatives for various reserves, or different approaches for addressing the medium term budget deficit through the MTFS.

10 OFFICER PREFERRED OPTION AND COMMENTS

10.1 Proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

11 CONCLUSION

11.1 This report outlines the actions required to complete the budget setting process for 2016/17 and for updating the MTFS to 2019/20. The associated update to the Corporate Plan is now scheduled for consideration at Cabinet in March, prior to being referred on to April Council. That will then conclude this year's corporate planning and budgeting exercise.

RELATIONSHIP TO POLICY FRAMEWORK

As covered in the report; the budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

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. A summary of the s151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are known. At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £1.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed, and taking a medium to longer term view.

Robustness of Estimates

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

1 producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
2 reviewing the Council's services and activities, making provision for expected changes;
3 reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
4 undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

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 (for General Fund). 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 (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements
- 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 revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on a significant net increase in "prudential borrowing" over the period to 2019/20. The bulk of this relates to service infrastructure (property and ICT) and Invest to Save initiatives. Comprehensive appraisal/procurement arrangements have been (and are) in place to help ensure robustness of the plans and to support sound decision-making.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**