

Balanced Budget and Local Government Finance Act 1988 Section 114

- 1.1 A sustainable balanced budget demonstrates that income equals spend over the short and medium term. It is a financial plan based on sound assumptions which will take into account deliverable cost savings and income growth strategies as well as usable reserves.
- 1.2 If the Finance Director (S151 Officer) considers that the Council is unable to set or maintain a balanced budget, after all routes have been explored, then a Section 114 report must be made. The 114 process requires that all non-essential spending is legally suspended while the Council considers the implications.
- 1.3 Within the Local Government Finance Act 1988, Section 114 (3) states that: “The chief finance officer of a relevant authority shall 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”.
- 1.4 This means that for Local Government, it is the Chief Finance Officer or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council’s leadership on its financial plans. Uniquely across the public sector however, the CFO also has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one.
- 1.5 It means that no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured.
- 1.6 Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.
- 1.7 The only allowable expenditure permitted under an emergency protocol would include the following categories:
 - existing staff payroll and pension costs
 - expenditure on goods and services which have already been received
 - expenditure required to deliver the council’s provision of statutory services at a minimum possible level
 - urgent expenditure required to safeguard vulnerable citizens
 - expenditure required through existing legal agreements and contracts
 - expenditure funded through ring-fenced grants
 - expenditure necessary to achieve value for money and / or mitigate additional in year costs
- 1.8 Councillors have 21 days from the issue of a Section 114 notice to discuss the implications at a Full Council meeting.