

## Report of the Chief Finance Officer

Under the Local Government Act 2003 the Director of Finance (in their capacity as the Chief Finance Officer under S151 of the Local Government Act 1972) is required to comment on the robustness of the budget and the adequacy of reserves. The Directors report is set out below.

### Robustness of the Budget

The current budget climate and timeframe continues to be the most challenging and volatile in the Borough's history. The economic climate and the 2019/20 Local Government Financial Settlement have only increased the challenges around setting a balanced budget for 2019/20 and achieving financial sustainability over the period of the MTFS. Harrow Council was not in a position to accept the 4 Year Settlement Offer (2016/17 to 2019/20) which saw its Revenue Support Grant (RSG) reduce by 93% over the four year period. The risk of an annual financial settlement has been mitigated by the Council's actual RSG for 2019/20 being in line with that included in the Settlement Offer. There are significant areas of uncertainty around the future of Local Government funding. The coming months will see three major external events that will change the amount of funding every local authority will receive from 2020 onwards:

- The next Spending Review
- The Fair Funding Review
- The 75% business rates retention scheme

At the time of writing this report there is no tangible information coming from the consultation processes on the three key events increasing the risk and uncertainty around decision making, budget planning and financial sustainability over the short and medium term.

The Council continues to experience increasing demographic and demand pressures, largely in relation to Adult's and Children's social care and homelessness. One off funding has been received for 2018/19 and 2019/20. Whilst helpful, it is insufficient in quantum and its non recurrent nature creates uncertainty and hinders long term planning.

In the wider economy there remains considerable uncertainty about the impact of Brexit, inflation, interest rates, the property market, employment levels and the impact of the economic climate. All these issues affect the Council's own finances and have major implications for Harrow residents and businesses increasing uncertainty and may result in additional demand on services.

The Council set's a three year Medium Term Financial Strategy to set a clear direction of travel and to allow the time to adequately plan for those saving proposals and initiatives that require a longer lead in time. As part of the budget setting process for 2019/20 the existing MTFS (2018/19 to 2020/21) has been refreshed and rolled on a year to reflect the Council's changing financial position. This allowed for a review of the proposals contained within it to be assessed as to whether they are robust enough to remain within the budget or need to be reversed out and replaced. There are no savings that require reversal in 2019/20 or 2020/21 in respect of savings put forward in previous years.

The advice of the S151 Officer is that the budget for 2019/20 is sufficiently robust but there are significant budget gaps for 2019/20 and 2020/21 which require robust and sustainable

proposals to address. However this advice is given, following the consideration of a number of factors:

- Saving proposals have been explored and scrutinised in some detail by various forums and Directorates have confirmed that they are achievable
- Those proposals in development for 2020/21 and 2021/22 will be subject to further scrutiny before final approval in their respective budget years
- Growth of £7.351m has been provided for within the 2019/20 budget. Service managers have made reasonable assumptions about demand led pressures and such pressures are monitored closely throughout the year with variations being tightly controlled
- Every effort has been made to ensure that the technical assumptions underpinning the budget are robust
- Prudent assumptions have been made about capital financing costs and investment income
- Key financial risks are managed and reported as part of the Corporate Risk Register
- The recommended increases in fees and charges are in line with the assumptions in the budget
- The budget for 2019/20 includes a general contingency of £1.248m
- There is a commitment within the organisation to robust financial management with any potential adverse budget variations been tightly controlled and contained within service budgets unless there is an agreement the variation is managed pan organisation
- There is a commitment within the organisation to ensure all new budget proposals are supported by a robust business case that has been scrutinised pan organisation and , unless specifically stated, makes a clear net financial contribution to the MTFS after considering all costs

#### Adequacy of General Reserves, Ear marked Reserves, and Contingencies

There is no statutory definition of a minimum level of reserves and it is for this reason that the matter falls to the judgement of the S151 Officer. The level of reserves is a balance between the risk facing the Authority and the opportunity costs of holding those balances. Reserves can only be spent once and should ideally only be used to support one off expenditure or to allow time for management actions to be implemented.

The Council holds a general fund balance of £10m which represents the balance of last resort in the event of any major and unforeseen event that compromises the delivery of the council's budget. At current levels, this balance represents 6% of the council's budget requirement for 2019/20 (£167m). This balance of £10m does place Harrow Council at the lower end of the lower quartile of general fund balances across London and nationally. No draw down on the general fund balance is forecast for 2018/19 and the three year MTFS (2019/20 to 2021/22) does not rely upon such balances. The general fund reserves are sufficiently adequate however they must not drop below the £10m level and no allocations can be made unless already planned and there are no such plans. Taking into account the significant challenges ahead, dependent upon the outturn position, consideration will be given to making a contribution to general fund balances.

In addition to general balances the Authority holds a number of other suitable reserves which are set out in Appendix 9. The estimate of these balances is £17.624m at the end of 2018/19 and a reduced balance of £11.48m by the end of 2019/20.

The 2019/20 budget still includes the on going revenue contingency of £1.248m for unforeseen items.

In conclusion the advice of the Section 151 Officer is that, having considered the need for balances and the budget risks, the level of reserves held are considered sufficiently adequate but only on the basis that:

- Any potential adverse budget variations are tightly controlled and contained within service budgets.
- The budget setting process for 2020/21 to 2021/22 identifies robust and sustainable proposals to address the identified budget gaps

### Budget Monitoring

The Local Government Act 2003 also introduced requirements in relation to budget monitoring and management action. Budget monitoring arrangements are in place in Harrow which monitor and report the performance of the revenue and capital budget and the progress of all saving proposals and income generation opportunities built into the budget. These arrangements remain continually under review to ensure they keep pace with the requirements of the organisation. The financial position can change relatively quickly and any adverse variations must be identified and addressed promptly by Service Managers and directorates to avoid a call on reserves.