

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 volatile in the Borough's history. The 2020/21 Local Government Financial Settlement was for one year only and although a balanced budget has been set for 2020/21 it has increased the challenge of achieving financial sustainability over the period of the MTFs. There are significant areas of uncertainty around the future of Local Government. The coming months will see three major external events that will change the amount of funding every local authority will receive from 2020 onwards:

- Spending Review 2020
- Fair Funding Review
- Business Rates Reform and Revaluation

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

The Council continues to experience increasing demographic and demand pressures, largely around social care and in particular services to Adults. Adult social care funding received in 2019/20 was guaranteed again for 2020/21 and further additional social care funding was received in 2020/21, and guaranteed over the life of the current parliament. Whilst helpful, the sums received are insufficient in quantum to keep pace with increasing demands and the lack of certainty makes planning for the medium and long term extremely challenging and the Council does not have at its disposal large reserves to support longer term planning.

In the wider economy there remains considerable uncertainty around the impact of the UK leaving Europe, 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 has set a three year Medium Term Financial Strategy to 2022/23 but, due to uncertainties, has only achieved a balanced budget for 2020/21 and a budget gap of £22.5m remains for years 2 and 3 of the MTFs.

The advice of the S151 Officer is that the budget for 2020/21 is sufficiently robust but there are significant budget gaps for 2020/21 and 2021/22 which require robust and sustainable proposals to address. Specifically in relation to the 2020/21 budget, the robustness assessment is based on 3 key factors:

- That the spending control target of £2.5m across the organisation is to be achieved in full with permanent on going reductions in expenditure by the end of 2020/21 to replenish the Budget Planning Reserve.

- Following the virement of budget from Corporate and Technical to provide directorates with the budgets required to support their services over the MTFS, directorates must manage services within existing resources as far as is safely possible. The central contingency is now at the minimal level required to fund technical items only.
- Saving proposals built in to the 2020/21 must be delivered in full and on time. Any variances from the agreed saving must be mitigated in full.

The advice given on the overall MTFS is provided 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.
- Any proposals (savings and growth) for 2021/22 and 2022/23 will be subject to further scrutiny before final approval in their respective budget years
- Growth of £5.101m has been provided for within the 2020/21 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 2020/21 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 5.7% of the council's budget requirement for 2020/21 (£174m). This balance of £10m does place Harrow Council in the lower quartile of general fund balances. No draw down on the general fund balance is forecast for 2020/21 and the three year MTFS (2020/21 to 2022/23) does not rely upon general fund balances being applied. The general fund balances are sufficiently adequate however they must not drop below the £10m level and no allocations should 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 always be given to making a contribution to general balances if the finances allow.

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 £14.178m at the end of 2019/20 reduced to £7.269m by the end of 2020/21.

The 2020/21 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 2021/22 to 2023/24 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.