Appendix 10

Report of the Chief Finance Officer – 2021/22 Budget

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. With Local Government being at the forefront of the response to both the public health and economic crises caused by Covid-19, it is hardly surprising that the pandemic has had a significant impact on Local Government finances which were already in a difficult position following a decade where resources have been reduced by over a quarter. Running alongside this, Harrow remains one of the lowest funded Councils both within London and nationally and has had to make significant savings for the last 9 years to achieve the legal requirement of a balanced budget.

Until the summer of 2020 the indication from government was still an intention to set a three-year revenue settlement after representations from the sector of the challenges managing temporary funding over the medium and longer term for budget planning and sustainability purposes. After the cancellation of the Autumn Budget, confirmation was finally received that Spending Review 20 would be a one-off settlement only for 2021/22. There are significant areas of uncertainty around the future of Local Government funding beyond 2021/22, with a direct impact on Harrow finances, with the outcome of major events unknown:

- Spending Review 2020
- Fair Funding Review
- Business Rates Reform and Revaluation
- The Adult Social Care Green Paper
- The High Needs Block within the Dedicated Schools Grant

This list of unknowns is extended as a result of the Covid-19 pandemic:

- The legacy impact of the pandemic and the long-term impact on income and expenditure budgets beyond central government support
- The role of Local Government in the economic recovery of the Borough
- The impact of the end of the Furlough Scheme both on residents and businesses
- The new phrase 'levelling up' between the regions

At the time of writing this report there is little tangible information on the unknown events listed above 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. In prior years such pressures have been largely related to Adults services. However, from 2021/22 pressures are starting to emerge in Children's social care with growth being required in the budget for both 2021/22 and 2022/23. In Adult services, the forecast demand pressures continue to be far in excess of what funding is provided through additional direct grant and income generated through the Adults Social Care precept requiring the Council to make savings elsewhere or call upon reserves.

In the wider economy there remains considerable uncertainty around 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 has set a three-year Medium Term Financial Strategy to 2023/24 but, due to uncertainties, has only achieved a balanced budget for 2021/22 and a budget gap of £29.7m remains over years 2 and 3 of the MTFS. The position on the MTFS has moved little between the draft and final budget. The Council could have embarked on a drastic programme of cuts to address the budget gap and this was not considered wise alongside the challenges posed by the Covid-10 pandemic. However, the position of the MTFS cannot be ignored and the advice of the S151 Officer is detailed later in this report to ensure financial sustainability.

The advice of the S151 Officer is that the budget for 2021/22 is sufficiently robust but there are significant budget gaps for 2022/23 and 2023/24 which require robust and sustainable proposals to address. Specifically, in relation to the 2020/21 budget, the robustness assessment is provided following the consideration of several factors:

- The 2021/22 budget includes a much-reduced level of savings compared to previous years which will be easier to manage alongside managing the legacy impacts of the Covid-19 pandemic. However, those saving proposals built into the budget must be delivered in full and on time. Any variances from the agreed saving must be reported and mitigated in full.
- Growth requirements have been scrutinised in detail to ensure growth is enough to ensure the safe delivery of services but being mindful of the challenging financial position.
- However, growth requirements will be monitored closely to ensure the provisions are enough and any over provision will be held corporately to support the MTFS.
- The financial impact of the Covid-19 pandemic has been closely tracked throughout 2020/21 to ensure, as far as possible, the impact into 2021/22 can be assessed and provided for but his will remain under review.
- 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 reported, 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 general fund balances are 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.

The Council holds £42.802m in reserve:

General Fund Reserve £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 5.6% of the council's budget requirement for 2021/22 (£179m). This balance of £10m does place Harrow Council in the lower quartile of general fund balance when benchmarked with other authorities. No draw down on the general fund balance is forecast for 2021/22 and the three-year MTFS (2021/22 to 2023/24) does not rely upon general fund balances being applied.

Ear Marked Reserve £23.352m- ear marked to specific items. Within this reserve there is £1.969m which is ear marked to Adults Social Care and can be called upon to support the revenue account if demand pressures exceed the additional growth provided for in the 2021/22 budget.

Non ear marked reserve of £9.45m – several individual reserves make up this balance and for 2021/22. £500k will be transferred into two ear marked reserves for Equality, Diversity and Inclusion (£250k) and London Living Wage (£250k). The balance will be transferred into one single Budget Risk reserve.

The 2021/22 budget still includes the ongoing revenue contingency of £1.248m for unforeseen items.

In conclusion, the 2021/22 has been prepared as robustly as possible to achieve a balanced position. It is accepted that years 2 and 3 of the MTFS are an estimate and there is much uncertainty surrounding the ongoing impact of the pandemic, further government support and what Spending Review 21 will bring. Therefore, whilst it is not unrealistic that the indicative future budget gaps have the potential to reduce, the budget shortfall for 2022/23 and 2023/24 is £29.7m which far exceeds the level of general fund and non-ear marked reserve. Therefore the Council must have a strategy in place to tackle its financial challenges and, for this reason, it is the advice of the S151 Officer that the Council must develop a fully costed budget and implementation plan, ready to bring to Cabinet in summer / autumn ready to feed into the budget setting process for 2022/23. This plan must have a minimum value of £10m.

Budget Monitoring

The Local Government Act 2003 also introduced requirements in relation to budget monitoring and management action. The Council has robust budget monitoring procedures in place with revenue budgets being monitored monthly and the capital programme quarterly. 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. Financial performance is reported in detail to Cabinet quarterly and regularly to Scrutiny. These robust arrangements will continue into 2021/22 and will remain under review to ensure they keep pace with the requirements of the organisation.