

## **Report of the Chief Finance Officer – 2022/23 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. Local Government was 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 whilst experiencing significant increases in demand. 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.

SR21 and the Autumn Budget set out the Governments taxation and public expenditure plans for the year ahead and confirmed resources and capital budget for the three years 2022/23 to 2024/25. The Indicative Financial Settlement confirmed levels of funding for 2022/23 only and was not the three year settlement that SR21 and the Autumn Budget predicted but this is cannot be used as a deterrent from the Council addressing its financial challenges.

There does remain significant areas of uncertainty around the future of Local Government funding beyond 2022/23, which will directly impact on Harrow finances, with the outcome of major events unknown:

- Fair Funding Review and assessment of need
- Business Rates Reform and Revaluation
- The Adult Social Care Green Paper
- The High Needs Block within the Dedicated Schools Grant
- The new phrase 'levelling up' between the regions.

This list of unknowns is extended as a result of the Covid-19 pandemic and what the legacy impacts on both the Council, its residents and businesses will be.

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 since 2021/22 . In Adult services the forecast demand pressures continue to be in the region of 6% to 8% per annum.

In the wider economy there remains considerable uncertainty around the impact of Brexit, inflation rates rising exponentially, interest rates increasing, the impact of increasing NI Contributions, 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 potential impacts on demand for services.

However, all these factors cannot be a deterrent from the Council addressing its significant financial challenges.

The Council has set a three-year Medium-Term Financial Strategy to 2024/25 based on the Local Government Indicative Financial Settlement and SR21 / Autumn Budget announcements. To achieve the legal requirement of a balanced budget for 2022/23, £14.7m of reserves have been applied. Reserves are temporary in nature and must be reversed out in the following year and this leaves the Council with a predicted £16.593m budget gap over its MTFS. The MTFS does assume a 2.99% increase in Council Tax per annum and estimated additional grant funding of £6m is built into years 2 and 3 of the plan therefore future funding announcements will not make a material difference to the predicted gap of £16.593m and should the estimated level of grants (£6m pa), not materialise it will increase the gap. The MTFS assumes a balanced budget for 2024/25 accepting that this is based on high level assumptions as forecasting so far in advance has its challenges, The budget gap of £16.593m cannot be ignored otherwise the Council is putting its financial sustainability and its legal requirement to set a balanced budget at risk.

In respect of the 2022/23 budget. the advice of the S151 Officer is that it is sufficiently robust. All income and grant adjustments are in line with the Indicative Settlement, known growth has been provided for within financial constraints and the budget includes a contingency for unforeseen items if the Final Settlement materially changes. Specifically, in relation to the 2022/23 budget, the robustness assessment is provided following the consideration of several factors:

- The 2022/23 budget includes minimal savings compared to previous years which will be easier to manage alongside developing the strategy to achieved financial stability over the MTFS.
- The agreed strategy for the delivery of the 2022/23 budget is no cost overruns and to look at safe options to deliver an underspend.
- 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 2021/22 to ensure that, as far as possible, the impact into 2022/23 is minimal as grant funded activities have been ceased or pressures have been built into growth assumptions.
- 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 2022/23 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 current £10m level. No allocations can be made from general fund balances unless already planned and signed off by the S151 Officer and the MTFS 2022/23 includes no plans for a call on general fund balances.

The Council is forecasting to hold balances / reserves of £59.055m to carry forward into 2022/23, which is reduced to £44.344m after accounting for the planned draw down of £14.7m from the Budget Planning MTFS Reserve to balance the 2022/23 budget:

**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 net revenue budget 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 built into the MTFS and draw downs can only be approved by the S151 Officer. The advice of the S151 Officer is that general fund balances of £10m must remain intact to provide an element of safety net for the Council and any opportunities to increase them must be considered to increase the Council's future financial resilience.

**Ear Marked Reserve £28.044mm**- ear marked to specific items.

**Non ear marked reserve of £6.3m** – four individual reserves make up this balance, and they are not ear marked to specific items, London Living Wage (£250k), Business Risk Reserve (£3.350m), MTFS Implementation (£349k) and Budget Planning MTFS (£2.425m). At year end these will be consolidated into the Budget Planning MTFS reserve.

The 2022/23 budget still includes the ongoing revenue contingency of £1.248m for unforeseen items.

In conclusion, the 2022/23 budget has been prepared as robustly as possible and it achieves its legally required balanced position. The Council must remain committed to its agreed strategy of maintaining its tight grip on the budget to ensure no cost overruns and looking at all safe options to deliver an in-year underspend. There is no capacity to overspend the 2022/23 budget. The Council has to address its predicted MTFS budget gap of £16.593m. The MTFS already assumes £12m of additional central government funding, which is an accepted risk, therefore relying on future funding announcements for 2023/24 and 2024/25 to reduce or eradicate the predicted gap is not feasible. The Council's remaining none ear marked reserves are low and whilst these do provide limited scope for smoothing the budget gap over the MTFS to ensure actions to reduce expenditure to within budget are done safely and well planned, the Council has no capacity to not address its funding challenges and move the funding gap into future

years. The Council must prepare a robust MTFS Funding Strategy to be completed by May 2022 to present to the incoming administration. This must be a hybrid strategy:

- Options to generate income to provide implementation funding and / conversion to permanent revenue budget savings
- Shorter term actions capable of being implemented by or before 01/04/23
- Medium term actions, including changes to service delivery, to sustainably reduce expenditure over the next 18 to 24 months.

If this strategy is not developed, agreed and delivered the financial stability of the Council and its ability to set a balanced budget will be severely compromised.

### 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 are forecast to deliver and underspend against the 2021/22. These robust arrangements will continue into 2022/23 and will remain under review to ensure they keep pace with the requirements of the organisation. The agreed strategy for 2022/23 is to continue to maintain a tight grip on the 2022/23 budget, to ensure no cost overruns and to identify all safe options to deliver an in-year underspend