

Report of the Chief Finance Officer – 2023/24 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 10 years to achieve the legal requirement of a balanced budget.

SR21 and the Autumn Statement 2022 set out the Governments taxation and public expenditure plans for the next 2 years, providing actual resources for 2023/24 and a direction of travel for 2024/25. Once again, the Local Government Finance Settlement was not the required three year settlement but this 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 2023/24, which will directly impact on Harrow finances, with the outcome of major events unknown:

- Fair Funding Review and assessment of need
- 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 2022/23 budget assumed the drawdown of £14.7m from the MTFS Budget Planning Reserve. The reality is that the Council is spending above its budget envelope and this is not sustainable. A revised financial strategy was implemented in 2022/23 to address the overspending position and reduce the Council's expenditure to within its budget envelope. The current forecast is that a drawdown of £9.8m will be required from reserves to fund the 2022/23 overspend, a betterment of £4.9m.

A balanced budget position has been achieved for 2023/24 and 2024/25. There remains a budget gap for 2025/26 which will need to be addressed alongside the government clarifying the position on the Social Care Grant and other funding streams.

In respect of the 2023/24 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 and inflationary pressures have been provided for within financial constraints and the budget includes a contingency for unforeseen items. Directorate budget proposals have been through robust challenge sessions with Members and Officers. The 2023/24 is a demanding budget to achieve and reserves have been identified to fund the capacity and support to deliver the budget. Specifically, in relation to the 2023/24 budget, the robustness assessment is provided following the consideration of several factors:

- The 2023/24 budget includes a mix of corporate and technical savings alongside proposals from the directorates balancing the risk over the MTFS.
- The agreed strategy for the delivery of the 2023/24 budget is no spending above the budget envelope unless corporately agreed
- 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.
- 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 2023/24 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.
- The commitment of maintaining expenditure within the budget envelope is shared by both officers and Members.

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 Reserve are adequate however it must not drop below the current £10.6m level. This reserve 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 5.8% of the council's budget net revenue budget for 2022/23 (£183m). This balance of £10.6m does place Harrow Council in the lower quartile of general fund balance when benchmarked with other authorities. The advice of the S151 Officer is that General Fund Reserve of £10.6m 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.

The Council is forecasting to hold balances / reserves of £56.7m to carry forward into 2023/24.

In conclusion, the 2023/24 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 saving proposals are delivered, expenditure remains within the budget envelope and the Council provides safe services. There is no capacity to overspend the 2023/24 budget.

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 2023/24 and will remain under review to ensure they keep pace with the requirements of the organisation.