

## **Report of the Chief Finance Officer – 2024/25 Budget**

Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer (in their capacity as the Chief Finance Officer under S151 of the Local Government Act 1972) reports the following matters to members when agreeing its annual budget:

- The robustness of estimates made for the purposes of the budget calculation, and
- The adequacy of the proposed financial reserves.

### **Robustness of estimates made for the purposes of the Budget Calculation**

The 2024/25 budget and MTFs has been compiled against a backdrop of continued and significant economic uncertainty with the national cost-of-living crisis continuing to severely impact residents and the council. High inflation has remained for a period beyond initial government forecasts. This has impacted council pay settlements, major contract inflation costs and other costs of service provision.

Alongside this has been an unprecedented level of service demand in key services such as Adult Social Care and there have been significant challenges in income budgets with parking income particularly badly impacted in the 2023/24 in-year financial position.

Developing the budget estimates for a given financial year is an ongoing, iterative process within the medium-term financial planning cycle. It considers the most recently available budget monitoring information and the latest assumptions for the forthcoming financial year.

The latest 2023/24 forecast at Q3 is a £0.581m net overspend. The Directorate overspend is £5.7m which is made up of overspends in adult services and parking services in Place Directorate and underspends in Childrens services and legal and governance.

The cost of the pay award has been another big factor in setting the budget in recent years with the last 2 years pay awards being higher than the budgeted 2%. The latest pay award agreed for 2023/24 (which was only settled in October 2023), cost £7.2m based on a flat cash increase of £2,226 for staff paid up to £49k and 3.88% for staff earning in excess of £49k. The cost of £7.2m averages out at an overall cost of 7%. For 2024/25, £5.5m has been budgeted for the pay award. This estimate is reasonable given the Bank of England view that inflation is expected to slow and be back to normal by the end of 2025. Normal means that average prices will rise by 2% per annum. CPI has dropped between December 2022 when it was 10.5% to the current level at December 2023 of 4% (Office for National Statistics data released 17/01/2024.)

Budget challenge sessions were held in August/September 2023. These sessions reviewed the current 2023/24 financial position and all savings put into the MTFs as part of the 2023/24 budget process. Further budget challenge sessions were held in October 2023 where growth was put forward where required for demand pressures in adult services and growth was also put forward to reverse and reprofile income savings where required. The overspend in adult services and parking income have both been factored into the 2024/25 budget with growth being added to the budget and MTFs savings in parking having been rephased across 2 years

The medium-term local government funding outlook is negative following the Autumn statement and no further funding has been announced beyond 2024/25. The Council's MTFS therefore assumes no increase in Government funding for 2025/26 and 2026/27 which is a prudent estimate and Council tax is estimated at 2.99% across the 2 years until confirmation is provided as to the maximum level that Council tax can be increased by.

A balanced budget position has been achieved for 2024/25 but there remains a budget gap for 2025/26 and 2026/27 of £10.880m and £6.732m respectively.

In respect of the 2024/25 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 of £2.461m which has been increased by £1.213m from the 2023/24 level.

Directorate budget proposals have been through robust challenge sessions with Members and Officers. Specifically, in relation to the 2024/25 budget, the robustness assessment is provided following the consideration of several factors:

- The 2024/25 budget includes a mix of corporate and technical savings alongside proposals from the directorates balancing the risk over the MTFS.
- Growth requirements have been scrutinised in detail to ensure growth is enough to ensure the safe delivery of services.
- 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 2024/25 includes a general contingency of £2.461m which has increase by £1.213m from the 2023/24 level 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 budget is shared by both officers and Members.

### **Adequacy of Reserves**

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 are therefore only available to support one off expenditure or to allow time for management actions to be implemented.

The General Fund balances are adequate however the balances should not drop below the current £10.0m 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 5.1% of the council's budget net revenue budget for 2023/24 (£196m). This balance of £10.0m does place Harrow Council in the lower quartile of general fund balances when benchmarked with other authorities. The advice of the S151 Officer is that General Fund balance of £10.0m must remain intact to provide an element of safety net for the Council and any opportunities to increase it must be considered to increase the Council's future financial resilience.

The Council is forecasting to hold balances / reserves of £58.6m to carry forward into 2024/25. The gross level of reserves is £61.2m but is reduced to £58.6m after allowing for the £2.6m DSG deficit.

The reserves have been reviewed as part of the 2024/25 budget process and £2.9m of reserves are no longer required for the original purpose they were set aside for which has meant that the Budget planning reserve has been increased by £2.9m to almost £20m (£19.599m).

In conclusion, the 2024/25 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.

### **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 monthly to the Corporate Leadership team as well as the Portfolio holder for Human Resources and Finance. These robust arrangements will continue into 2024/25 and will remain under review to ensure they keep pace with the requirements of the organisation.