

REPORT FOR: CABINET

Date of Meeting: 17 December 2024

Subject: Draft Revenue Budget 2025/26 and draft
Medium Term Financial Strategy to 2027/28

Key Decision: Yes

Responsible Officer: Sharon Daniels – Strategic Director of Finance

Portfolio Holder: Councillor David Ashton – Portfolio Holder for
Finance and Highways

Exempt: No

**Decision subject to
Call-in:** Yes

Wards affected: All

Enclosures: **Appendix 1A** – Savings and Growth from
2025/26 Budget Process
Appendix 1B – Savings and Growth from the
2023/24 and 2024/25 Budget Process
Appendix 2 - Medium Term Financial Strategy
2025/26 to 2027/28
Appendix 3 – Draft Public Health Budget
2025/26
Appendix 4 - Draft Schools Budget 2025/26

Section 1 – Summary and Recommendations

This report sets out the draft revenue budget for 2025/26 and draft Medium Term Financial Strategy (MTFS) to 2027/28. The budget and MTFS will be brought back to Cabinet in February 2025 for final approval and recommendation to Council.

Recommendations:

Cabinet is requested to:

- 1) Approve the draft budget for 2025/26 and the MTFS to 2027/28 for general consultation as set out in Appendices 1(A & B) and 2 so that Cabinet may later consider the budget including the consultation responses and the equality impact assessment(s), before it is referred to Council in February 2025.
- 2) Note the draft budget will be updated when the detail is announced in the Indicative Financial Settlement which is expected on 19 December followed by the Final Settlement in January 2025 (paragraph 1.08).
- 3) Note that, at draft budget stage, there remains an estimated budget gap of £0m for 2025/26, £5.495m for 2026/27 and £3.199m for 2027/28.
- 4) Note the proposal to increase core Council Tax by 2.99% in 2025/26, 2026/27 and 2027/28 (paragraph 1.29 and 1.30).
- 5) Note the proposal to increase Adult Social Care Precept Council Tax by 2% in 2025/26, 2026/27 and 2027/28 in respect of the Adult Social Care Precept (paragraph 1.29 and 1.30).
- 6) Approve the draft Public Health budget for 2025/26 as set out in Appendix 3.
- 7) Note there are no proposed structured changes to the schools funding formula for 2025/26 as set out in Appendix 4.
- 8) Note the assumed funding for the protection of social care through the Better Care Fund (paragraphs 1.50 to 1.54)
- 9) Authorise the Strategic Director of Finance, following consultation with the Portfolio Holder for Finance and Highways, to agree Harrow's 2025/26 contribution to the London Borough's Grant Scheme (paragraph 1.59).

Final approval will be sought from Cabinet and Council in February 2025.

Reason: (For recommendations)

To ensure that the Council publishes a draft budget for 2025/26 and a draft MTFS to 2027/28.

BACKGROUND

- 1.01 This report refreshes the Medium-Term Financial Strategy (MTFS) for 2026/27 and 2027/28 and sets out the draft budget for 2025/26. The Council must have a balanced budget for 2025/26 and whilst it is the ambition to have a balanced budget for all years of the MTFS, the continuation of one year funding settlements makes this effectively impossible. At the time of writing this report, the funding settlement for 2025/26 is expected on 19th December 2024.
- 1.02 Local Government is facing the most challenging financial environment for many decades. Almost all Councils are overspending their budgets. This is a sector wide problem with over 10 section 114 (3) notices declared since 2021 (7 Authorities) and 19 Authorities now relying on Exceptional Financial Support in 2024/25.
- 1.03 London Boroughs have seen a rising demand for services as a result of an 11% population increase since 2010, leading to increases in demand led services (Housing, Adults and Children's services). In addition, costs have risen due to high inflation in recent years. The latest figures for London at quarter 2 for 2024/25 show that London Councils, on a collective basis, will overspend their 2024/25 General Fund budgets by £700m.
- 1.04 In previous years, Council Tax has been increased to just below referendum limits and full use has been made of the Adults Social Care Precept, both of which were in line with central government expectations. The impact of this is that the Council is heavily reliant on Council Tax to fund its core budget. In 2024/25 approximately 80% of the Council's net revenue budget of £202.6m is funded from Council Tax.

SUMMARY

- 1.05 The draft budget set out in this report shows an updated MTFS to the figures agreed by Council in February 2024. After all adjustments, the budget for 2025/26 is now showing a budget gap of £0m. However, there remain significant budget gaps of £5.495m and £3.199m to be closed over the following two years of the MTFS for 2026/27 and 2027/28.
- 1.06 It is important to note that for 2026/27 and 2027/28, many of the budget adjustments are estimated at a high level due to the challenges of forecasting complex issues such as inflation, demand, and demographics so far in advance. As the budget is approved annually, the latter two years of the MTFS will be subject to substantive review and adjustment before finally being approved.
- 1.07 The draft MTFS is based on the announcements originally made as part of the Final 2024/25 Finance Settlement announced in January 2024 and has since been updated for estimates based on:
 - The Budget announcement on 30th October and
 - The Recent announcement made on 28 November by the Ministry of Housing, Communities and Local Government (MHCLG) on the Finance Policy.

- 1.08 The MTFS will be updated further once the detail of the 2025/26 Local Government Provisional Financial Settlement is known, which is expected to be announced on 19 December 2024. The Final Finance settlement is expected to be agreed by the end of January 2025. Traditionally there is little change between the provisional and final settlement, however tradition was not followed last year for the 2024/25 settlement when a further £600m of funding was announced at the final settlement (Harrows' share of this was £2.308m).

BUDGET ANNOUNCEMENT - 30 OCTOBER 2024

- 1.09 The Chancellor of the Exchequer, The Rt Hon Rachel Reeves MP, delivered her first Budget on 30th October 2024. The announcement outlined a set of measures aimed at fixing the foundations of the economy and delivering change. Alongside this fiscal event, the Office for Budget Responsibility (OBR) published its updated economic and fiscal outlook.

- 1.10 The key policy announcements relating to changes to local government funding are as follows:

- Core Spending Power (CSP) for local authorities is estimated to increase by £3.7bn to £68.4bn in 2025-26, a 5.7% cash-terms increase and 3.2% real-terms increase.

- There was no explicit mention of Council tax principles in the Budget, however civil servants have indicated these are likely to remain unchanged at 2.99% main rate and 2.00% ASC.

- Local authorities to be compensated for proposed changes to Business rates multipliers and reliefs, method yet to be clarified.

- Social care grant funding will increase by £600m in 2025-26 - with detail on allocations to be confirmed.

- General grant funding will increase by £700m in 2025-26 - with detail on allocations to be confirmed. The government committed to a "targeted approach" to allocating this additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27.

- Local authorities to receive £1.1bn of new funding in 2025-26 through the implementation of the Extended Producer Responsibility Scheme. The Treasury are to guarantee local authorities receive at least the funding set out in initial estimates to be communicated in the Autumn to provide additional certainty to local authorities. (This was communicated on 28 November). No details as yet.

- Homelessness funding will increase by £233m in 2025-26 (with detail on allocations to be confirmed).

- £1bn was set out for the Household Support Fund and Discretionary Housing Payments to continue in 2025-26 (UK-wide) (Government's contribution to DHPs was £100m in 2024-25).

- The government also announced a 1.2% increase to employer's National Insurance contributions and a reduction in the secondary threshold (the point at which employers start paying national insurance) from £9,100 to £5,000 per employee. Discussions with civil servants seem to indicate local authorities, alongside other public sector organisations, will be partially or fully compensated for these increases.
- Over £250m to be provided to continue testing children's social care reforms, including new funding to pilot a Kinship Allowance and to create thousands of new foster placements. Allocations to be confirmed.
- A £1 billion increase to SEND and Alternative Provision funding in 2025-26. Allocations to be confirmed.

POLICY STATEMENT 2025/26 LOCAL GOVERNMENT FINANCE SETTLEMENT – 28 NOVEMBER 2024

- 1.11 On 28 November 2024, the Minister of State for Local Government and English Devolution published a written ministerial statement which was accompanied by a policy statement on the 2025/26 local government finance settlement.
- 1.12 The proposals fall under two areas: the first deals with the upcoming one-year local government finance settlement for 2025/26; the second deals with plans to begin reform of the approach to allocations from 2026/27.
- 1.13 The Government's policy statement sets out some detail on funding, but local authority-level figures will be published as part of the provisional local government finance settlement. The statement reiterates the announcement in the 30 October Budget which quoted a 3.2% real terms increase in core spending power. the cash terms increase is likely to be closer to 5.6%.
- 1.14 On core spending power grants, the statement confirmed that:
- Revenue Support Grant (RSG) will increase in line with CPI, which suggests an increase of 1.7%, or approximately £50 million. There will be no 'negative RSG - this is when the way in which RSG is calculated leads to a downward adjustment of business rates top-up or tariff.
 - Baseline funding levels and compensation grant will collectively increase by 1.7%, with the split of this determined by the relative proportion of local taxbases subject to the small multiplier (with a similar methodology to how this was done in 2024/25).
 - The Government is discontinuing the Rural Services Delivery Grant and the Services Grant, with funding repurposed elsewhere in the settlement.

- The Social Care Grant will be increased by £680 million. The statement does not clarify whether the usual distribution method (i.e. taking council tax income into account) will continue.
- There will be a new £250 million Children's Social Care Prevention Grant. This will be distributed using a new children's needs-based formula, which will allocate funding according to estimated need for children's social care services.
- All other social care grants (improved Better Care Fund, Market Sustainability and Improvement Fund and the Adult Social Care Discharge Fund) will continue in 2025/26, with the statement suggesting that the national totals will remain unchanged.
- The government is introducing a new one-year 'Recovery Grant', worth £600 million. The 'Recovery Grant' will go to places where, weighted by population, deprivation outweighs council tax raising ability. Not all authorities will receive an allocation.
- The New Homes Bonus will continue for a further year in 2025/26, but the Government intends to consult on reforming the scheme beyond 2025/26 and will propose that 2025/26 is the last year of new homes bonus in its current format.
- The Minimum Funding Guarantee (MFG) will revert back to 0% (previously 3%) but will also take into account council tax rate increases (for the past two years, these have been excluded, making the guarantee more generous in the past). This should mean an authority in receipt of MFG will receive less central government grant than 2024/25.

1.15 Extended Producer Responsibility (EPR) Scheme - on 28 November, the Department of Environmental, Food and Rural Affairs (Defra) shared provisional estimates of local authority income from the extended producer responsibility for packaging (EPR) scheme via correspondence directly with councils. This includes both waste collection and waste disposal authorities.

1.16 The scheme excludes costs of binned & littered waste, commercial waste, packaging collected within food and garden waste services and recyclable, non-glass drinks containers. While there are ostensibly no significant new burdens to local authorities associated with this income, the full payment from the scheme will be contingent on satisfactory performance. (Monitoring will not start until 2026/27).

1.17 For 2025/26 only, the provisional payments set out in letters to councils are a guaranteed minimum. This is a one-time guarantee by central government that the actual payment will not be lower (but could potentially be higher), compared to provisional. The allocation for Harrow is £2.769m. This sum will be treated as a one-off allocation for budgeting purposes and will be held in a reserve to cover future liabilities expected from the Emissions Tax or will be used to cover any potential shortfall between the estimates in the budget

model and the provisional settlement once announced around 19th December.

- 1.18 The changes made to the MTFS as a result of both the October 30th Budget and the Policy Statement are estimated at this stage and are set out in Table 1 but the detail of any funding changes for 2025/26 will only be confirmed in the Financial Settlement for Local Government, which is due around the 19 December 2024.

DELIVERY OF THE 2024/25 BUDGET

- 1.19 Harrow has had a good track record of robust financial management and has not reported a revenue budget overspend for many years. In 2022/23 the budget was originally based on drawing down £14.7m of reserves to bring in a balanced position. The final position for 2022/23 improved significantly as a result of careful control and oversight of budgets, which meant that only £5.8m of reserves were needed (as opposed to £14.7m) to bring the budget into a balanced position. Absent this rigorous control, Harrow's relevant reserves would now be at a very parlous level. Harrow's reserves have, for some years, been far less than many comparable boroughs.
- 1.20 The 2023/24 Outturn was reported to Cabinet in July 2024. The final outturn on the revenue budget for 2023-24 was an underspend of £1.343m. This underspend was added to the Budget planning Reserve increasing the reserve to just over £21m.
- 1.21 The position on the 2024/25 revenue budget is detailed in a separate report on this agenda, Revenue and Capital Budget Monitoring Report 2024-25 Q2. At Q2 a net overspend of £2.055m is being reported. If the position does not improve before year end it would be necessary to draw down this amount from the MTFS Budget Planning Reserve to bring in a balanced position. However, it is anticipated that 2024/25 should be balanced, with no draw down from reserves other than those already built into the budget.
- 1.22 Whilst there is a net overspend of £2.055m reported, there are Directorate pressures of £10.3m. £5.4m of this relates to pressures on demand in adult services. Such is the scale of the demand, that across the 3 years of the MTFS from 2025/26 to 2027/28, a further £12.6m has been added in as a budget growth, as set out in Table 1, in addition to £7.6m built in as part of the 2024/25 Budget for years 2025/26 and 2026/27. In addition, homelessness pressures also saw a rise during Quarter 3 due to increasing demand and prices of the expensive nightly rated accommodation. A one-off earmarked reserve of £4m is used to offset the pressure in 2024/25, however any increase in costs would worsen the overspend position if these can not be mitigated. Furthermore, the current budget and MTFS assumes additional parking income to be achieved through the banding change of Penalty Charge Notices. At the time of writing this report, the Council is still awaiting the GLA mayoral approval followed by the Secretary of State for Transport sign-off, before the banding change can be implemented in Harrow. Any delay in the implementation would jeopardise the financial position for 2025/26.

BUDGET PROCESS 2025/26

- 1.23 The Council has a statutory obligation to agree and publish the budget for 2025/26, and approval for this will be sought in February 2025. In preparing the 2025/26 budget and rolling forward the MTFS to cover the three-year period to 2027/28, the current MTFS has been the starting point for the process.
- 1.24 In preparing the draft budget for 2025/26 the existing MTFS has been:
- Refreshed and rolled on a year into 2027/28
 - Updated to reflect the pressures, as well as any opportunities and savings, estimated changes from Government announcements plus council tax changes.
- 1.25 The adjustments are summarised in Table 1 below. Following Table 1 there is an explanation for the figures contained within the table. These adjustments are also set out in Appendix 2 including adjustments included within the previous MTFS agreed as part of the 2024/25 Budget process. Table 1 shows budget gaps of £0m for 2025/26, £5.495m for 2026/27 and £3.199m for 2027/28.

Table 1: Changes to the MTFS (Prior to Indicative Finance Settlement)			
	2025/26	2026/27	2027/28
	£'000	£'000	£'000
Published Budget Gap (February 2024)	10,880	6,732	0
Remove Corporate Budget	-2,308		
Budget Gap (February 2024)	8,572	6,732	0
Council Tax Changes:			
Core CT @ 2.99%			-5,342
ASC Precept CT @2%	-3,238	-3,426	-3,558
Impact of CT % increase in 25/26 and 26/27 on additional CT base	-180	-386	
Increase in CT base - 150 band D equivalents			-250
24/25 One-off Collection Fund Deficit	170	-170	
Increase in tax base following policy change on council tax premiums on long term empty properties (both unfurnished and furnished)	-750		
Council Tax Support scheme	-1,300		
Technical Adjustments:			
Reduce contingency to £2m (£461k less £233k set aside for Members Allowance)	-228		
Reprofile Concessionary Fare growth, based on mid-case estimate provided by London Councils	-776	980	1,087
WLWA Energy Income - update assumption to show £500k income in 26/27 and nil in 27/28		-500	500
Triennial valuation of the Pension Fund		-2,000	
Treasury Management - Interest income (one-off)	-500	500	
Treasury Management - Phoenix loan restructure	-400	-30	-40
Grants:			
Retained NNDR, increase in line with CPI	-297	-314	-377
Net estimated change in government grants	-1,073	-1,146	-1,377
Additional social care grant	-1,700		
Additional Homelessness Prevention Grant	-1,600		
Business rates change for private schools	-440		
Capital Financing Costs:			
27/28 Capital Programme costs from 25/26 refresh			1,600
Capital Financing costs arising from additional capital projects in 25/26 and 26/27 as part of 25/26 refresh		1,285	
Capital financing saving from 24/25 Capital Programme review	-20	-296	296
Pay Inflation:			
Pay Award 2024/25			
£5.5m budget - Surplus of £800k following actual 24/25 pay award confirmation	-800		
Pay Award 2025/26			
£5m budget assumed in 23/24 MTFS. Update assumption to reduce budget from £5m to £4m. £4m will fund an average pay award of 3.3%	-1,000		
Pay Award 2026/27			
£3m budget assumed in 24/25 MTFS			
Pay Award 2027/28			
Pay award @ 2.5%			3,000
Provision for Non Pay Inflation:			
Surplus Non Pay Inflation budget from 23/24 allocation	-500		
Non Pay inflation			1,000
Remove councilwide Growth £1m built in 26/27 from previous MTFS		-1,000	
Adult Services Contract cost increases arising from NI increases announced in Autumn Budget	1,320		
WLWA levy increase	781	800	800
Directorates Savings and Growth:			
Resources	803	-30	0
Managing Director	207	-174	0
Culture, Environment & Economy	-178	28	0
Housing & Regeneration	1,203	-331	-1
Adult Services	1,840	4,950	5,860
Children's Services	1,362	23	0
Corporate	-1,278	0	0
Revised Budget Gap	0	5,495	3,199

EXPLANATION OF FIGURES IN TABLE 1

Remove Corporate Budget

- 1.26 As set out in paragraph 1.08, when the Final Settlement for 2024/25 was announced in January 2024, a further £600m of additional funding was announced of which Harrows share was £2.308m. The 2024/25 budget was already balanced at the time of receiving the additional £2.308m and therefore this funding has been set aside as a saving to reduce the budget gap from £17.612m to £15.304m.

Council Tax Changes

- 1.27 The 28th November Policy Statement established that Councils with social care responsibilities will be able to increase council tax by up to 3% with an additional 2% for adult social care without a local referendum for 2025/26.
- 1.28 When the Final Budget was agreed in February 2024, the 2024/25 council tax increase was 4.99% (2.99% for the core council tax increase and 2% for the Adult Social Care Precept). However, there was no guidance on the level of Council tax that could be applied in future years and therefore, the assumed Council tax levels built into the MTFS for 2025/26 and 2026/27 was 2.99%.
- 1.29 A maximum Council Tax increase of 4.99% is **now** budgeted for 2025/26 in line with announcements made as part of the 28 November Policy statement (para 1.27). There has been no confirmation on guidance as to the maximum level of Council Tax increase for 2026/27 and 2027/28, however the working assumption is 4.99% for both of these years.
- 1.30 The 2026/27 Council tax income of 2.99% was put into the MTFS last year as part of the 2024/25 budget and therefore income of an additional 2% is included to arrive at the budget gap for 2026/27. As the MTFS is extending a further year to 2027/28, a 4.99% Council tax for 2027/28 brings in approximately **£9m in additional council tax income** which is included in Table 1.
- 1.31 The Council's tax base has been calculated, (according to the relevant procedures and guidance) at 90,843 band D equivalent properties, which is an increase of 1,468 Band D equivalents on the 2024/25 Band D of 89,375. The main reasons for the increase are set out in paragraphs 1.34 and 1.35.
- 1.32 There are further tax base increases assumed for 2026/27 and 2027/28 of **£250k in each year** included in Table 1 and the Technical Adjustments in Appendix 2. These are estimates for future years, which will be revisited as part of the 2026/27 budget process.
- 1.33 The Collection Fund and its impact on the 2025/26 budget is subject to a separate report elsewhere on this agenda (Report: Estimated Surplus / (Deficit) on the Collection Fund 2024-25). **The estimated impact on the 2024/25 Collection Fund is a deficit of £170k** (which is the Harrow share of the total deficit of £304k). This deficit, which must be accounted for as a one-off charge against the 2025/26 budget, is included in Table 1.

- 1.34 Council Tax Premiums - there will be an increase in the tax base following a policy change on council tax premiums on long term empty properties (both unfurnished and furnished). This achieves additional annual **Council tax income of £750k**.
- 1.35 Council Tax Support Scheme change for 2025/26 - one of the options to reduce the budget gap has been to look at changes to the Council Tax Support Scheme. The Council made the difficult decision to consult on an option to reduce the scheme's expenditure by £1.7m per annum from the 1 April 2025 as part of the wider variety of savings options. Due to 20% of savings being passed onto preceptors, this would result in a saving of approximately **£1.3m for the Council**.
- 1.36 Harrow has extensively consulted on this complex subject, took into account residents feedback, and has analysed the impacts. The suggested change as set out elsewhere on the agenda (report: Changes to the Council Tax Support (CTS) Scheme for 2025/26 Financial Year), affects working age residents. However out of the 12,837 CTS support recipients 66% or 8,521 are not affected at all.

Technical Assumptions

- £228k reduction to the contingency. The Contingency was increased in 2024/25 to £2.228m as a result of additional funding received in the provisional finance settlement. The previous contingency figure was £1.248m (a figure in place for many years). Despite the reduction of £228k, a contingency budget of £2m will be significantly more than the £1.248m previously held.
- Reprofiting of the Concessionary Fares Budget – The previous budget assumed additional costs of £2.05m in 2025/26. The assumptions have been updated using the levy projections as at September 2024. This results in a budget re-profiling of £776k to 2026/27. However the increasing costs mean that an additional budget of £204k is required in 2026/27 and £1.087m in 2027/28.
- The Council has received some cash rebates from West London Waste Authority of £1.6m, £2.4m and £2.1m respectively in 2022/23, 2023/24 and 2024/25 as a result of energy income. The energy from waste facility generates electricity which then results in an income for the WLWA. A decision was made to reimburse a proportion of the energy income to the six constituent boroughs. The budget set in 2024/25 already assumed £1m one off income for 2025/26, and as electricity prices are dropping it is felt that it would be prudent to assume a further £500k one off benefit for 2026/27.
- £2m saving from the Triennial Valuation of the Pension Fund –the key aspects of the triennial valuation process is the setting of the employer contribution rates for all scheme employers for the next 3 years – the 2025 Valuation results will be finalised (formally) in March 2026 and will set the rates for the financial years 2026-27 to 2028-29 inclusive. For the Fund's major employer, Harrow Council, which accounts for almost 80% of the Scheme membership at 31 March 2024, the Fund's actuary has carried out an asset / liability study and modelled the impact of a number of

contribution rate strategies. The estimated saving as a result of reducing employer contribution rates is £2m pa.

- One off Treasury Management savings of £500k are assumed in 2025/26 which is felt achievable in the light of the Bank of England base rate reducing at a much slower rate than previously anticipated.
- The Council has refinanced 2 of its fixed rate loans following an approach from the lender. The proposal put forward means that the Council repays principal over 20 years rather than just repaying interest. The impact of this is a saving in the annual interest cost of £470k over the 3 years of the MTFS.

Grants

- It was announced at the Autumn Budget that Local authorities will see an increase in the sum of baseline funding levels (BFLs) as if both business rates multipliers had increased by CPI between September 2023 and September 2024. For 2025-2026, BFLs will increase to reflect the increase of the standard business rates multiplier to 55.5p but the small business rates multiplier will be frozen at 49.9p. Local authorities will be fully compensated for the freeze in the small business rates multiplier via an increase to the calculation of under-indexation compensation.
- Retained NNDR (Business Rates Income) – this will increase by September CPI of 1.7% which means increases of £297k, £314k and £377k across 2025/26 to 2027/28.
- Increase in Government Grants – assuming CPI increases, the government grants in the 2024/25 base budget will increase by £1.073m, £1.146m, and £1.377m across 2025/26 to 2027/28.
- Additional Social Care Grant – In the October 30th Budget, £600m of additional Social Care grant was allocated and the estimated value of the allocation for Harrow is £1.7m.
- Additional Homelessness Prevention Grant (HPG) funding - In the October 30th Budget, £233m of additional HPG was announced and the estimated value of the allocation for Harrow is £1.6m.
- Additional Business Rates Income as a result of changes to reliefs for Private Schools – the Government will implement changes which mean that Private schools that are charities will no longer be eligible to claim charitable rates relief and will be required to pay their full business rates liability. The estimated benefit to the Council is £440k.

Capital Financing Costs

- The cost of the 2024/25 Capital Programme was approved as part of the 2024/25 budget setting process, but as the cost of £1.6m fell into 2027/28 which was last year outside of the MTFS period, the cost of £1.6m is now included in 2027/28.

- As part of the review of the Capital Programme carried out for the 2025/26 Budget process, significant additional Capital has been included at a cost of £1.285m in 2026/27.
- As a result of a review of the existing Capital Programme, it has been possible to remove some surplus capital budgets and therefore reducing capital financing costs by a net £20k across the MTFS period (-£20k 2025/26, -£296k 2026/27 and +£296k 2027/28).

Pay Inflation

- The pay award for 2024/25 has recently been agreed (October 2024). The cost of the pay award is £4.7m, which is £800k less than the assumed cost of £5.5m and therefore £800k can be put forward as a budget saving.
- In terms of 2025/26 and 2026/27 pay award budgets of £5m and £3m were assumed respectively as part of the 2024/25 budget process. With regard to the 2025/26 pay award the assumption is to now reduce the budget from £5m to £4m, therefore a £1m reduction saving to the budget.
- A pay award budget of £3m is assumed for 2027/28.

Non-Pay Inflation

- Non pay inflation, which covers areas such as energy costs and contractual up lifts, was set at £1m pa in 2024/25, 2025/26 and 2026/27.
- A £500k saving can be put forward as only £500k of the 2024/25 allocation has been required.
- £1m of non-pay inflation is added to the 2027/28 Budget.
- £1m of council wide growth in 2026/27 is being removed from the budget as services have submitted growth proposals which are included on an individual basis which means there is no requirement for a general growth budget to be included.
- Increase in National Insurance Contributions - The government announced a 1.2% increase to employer's National Insurance contributions and a reduction in the secondary threshold (the point at which employers start paying national insurance) from £9,100 to £5,000 per employee. Government have indicated that local authorities, alongside other public sector organisations, will be partially or fully compensated for these increases. However, that compensation is in relation to direct staffing costs and given the large cost of staffing within adult social care services commissioned by the Council, a provision of £1.3m is made to cover the costs that are likely to be passed on by providers.
- West London Waste Authority (WLWA) charges –West London Waste Authority (WLWA) is a statutory Waste Disposal Authority (WDA) responsible for disposing of waste produced by 1.7 million residents, collected across the London Boroughs of Brent, Ealing, Harrow, Hillingdon, Hounslow and

Richmond upon Thames. This includes the waste collected from households and at household waste sites. The cost of the charge for 2025/26 has increased by £781k. The 2024/25 cost was £10.249m, increasing to £11.210m in 2025/26. An estimate has been made for increase in 2026/27 and 2027/28 of £800k in each year.

Directorate Savings and Growth

1.37 The rest of the figures in Table 1 relate to Directorate savings and growth which are detailed in Appendix 1A. As can be seen from Table 3 and Appendix 1A, there is net growth of £3.9m, £4.5m and £5.9m built into the MTFS across the 3 years 2025/26 to 2027/28, which total £14.3m. Growth in the Adult social care budget accounts for £12.6m of the net growth.

1.38 After all the adjustments, the result is an estimated gap across the MTFS of £8.694m as follows:

2025/26 £0m
2026/27 £5.495m
2027/28 £3.199m

1.39 Between now and the Final Budget in February 2025, and on an ongoing basis continuing into 2025, the next steps are:

- Clarify the implications on the MTFS of the Indicative Financial Settlement when received in late December (estimated date 19th December).
- Continue to review/refine pressures, to reduce the impact of the gap in future years of 2026/27 and 2027/28.
Focus on efficiencies to reduce the impact of the gap in future years of the MTFS.

Growth & Savings

1.40 Table 2 below summarises the savings and growth previously agreed as part of the 2023/24 and 2024/25 budget process. This shows that there is net growth of £1.070m in 2025/26 and £1.032m in 2026/27. Therefore, total growth of £2.102m across the 2 years.

Table 2: Savings and Growth from the 2023/24 and 2024/25 Budget Process (Detail in Appendix 1B)

Summary Savings and Growth from the 2023-24 & 2024-25 Budget Process			APPENDIX 1B
	2025-26	2026-27	Total
	£000	£000	£000
Savings			-
Resources	(108)	-	(108)
Managing Director	(6)	-	(6)
Culture, Environment and Economy	(500)	-	(500)
Housing and Regeneration	(619)	(591)	(1,210)
Adult	(295)	-	(295)
Childrens	(500)	-	(500)
Corporate/Council Wide			-
Total Savings	(2,028)	(591)	(2,619)
Growth			
Resources	(230)	-	(230)
Managing Director	6	-	6
Culture, Environment and Economy	(1,250)	-	(1,250)
Housing and Regeneration	2,225	(377)	1,848
Adult	2,347	2,000	4,347
Childrens			-
Corporate/Council Wide			-
Total Growth	3,098	1,623	4,721
Net Total Savings and Growth	1,070	1,032	2,102

- 1.41 Table 3 summarises “new” growth and savings from the current 2025/26 budget setting process. This shows that there is net growth of £3.959m in 2025/26, £4.466m in 2026/27 and £5.859m in 2027/28. Therefore, this is net growth across the 3 years of £14.284m.

Table 3: Savings and Growth from the 2025/26 Budget Process (Details in Appendix 1A)

Summary Proposed savings/growth proposals				APPENDIX 1A
	2025-26	2026-27	2027-28	Total
	£000	£000	£000	£000
Savings				-
Resources	-	(100)	-	(100)
Managing Director	(385)	(100)	-	(485)
Culture, Environment & Economy	(1,256)	-	-	(1,256)
Housing & Regeneration	(157)	(331)	(331)	(819)
Adult Services				-
Children's Services				-
Corporate	(1,278)	-	-	(1,278)
Total Savings	(3,076)	(531)	(331)	(3,938)
Growth				
Resources	803	70	-	873
Managing Director	592	(74)	-	518
Culture, Environment & Economy	1,078	28	-	1,106
Housing & Regeneration	1,360	-	330	1,690
Adult Services	1,840	4,950	5,860	12,650
Children's Services	1,362	23	-	1,385
Corporate				-
Total Growth	7,035	4,997	6,190	18,222
Net Total Savings and Growth	3,959	4,466	5,859	14,284

The summary information in the tables is supported by the details in appendices 1A and 1B.

CAPITAL RECEIPTS FLEXIBILITY

- 1.42 In 2016 the government announced the Capital Receipts Flexibility Scheme to support local authorities to deliver more efficient and sustainable services by allowing them to spend up to 100% of their fixed assets receipts on the revenue costs of transformation projects. The flexibility has been extended on numerous occasions and the policy statement on 28 November set out a further extension to 2030. The government will also remove the restriction with respect to redundancy costs that limits the use of the flexibility to statutory redundancy costs only.
- 1.43 The budget assumes a continuation for a further year into 2025/26 but then is discontinued and the budget is reinstated for 2026/27. The MTFs includes a budget of £1.25m to fund the Regeneration Team. The nature of this spend meets the capital flexibility criteria and the team will be funded under the capital flexibilities scheme for 2025/26.

PUBLIC HEALTH FUNDING 2025/26

- 1.44 In 2024/25 the total public health grant to local authorities totalled £3.575bn, with £12.165m being originally allocated to Harrow. The grant is ringfenced for use on public health functions exclusively for all ages of the population and must be spent in accordance with grant conditions on expenditure incurred by local authorities for the purposes of their public health functions, as specified in Section 73B (2) of the National Health Service Act 2006.
- 1.45 The draft Public Health commissioning intentions detailed in Appendix 3 for 2025/26 are based on the revised grant allocation for 2024/25 of £12.288m. These commissioning intentions reflect alignment with the Health & Wellbeing Strategy, Borough Plan, and evidence of population priorities. The authority will likely find out it's definitive allocation in Jan 2025.
- 1.46 The Council consider that this level of funding enables the Council's overarching statutory duties (including equality duties) to be maintained, taking account of the joint strategic needs assessment. However, if additional duties are required by Councils, and if these were unfunded, the commissioning intentions would need to be amended in light of the allocated grant envelope.

SCHOOLS FUNDING FOR 2025/26

- 1.47 In 2018/19 the government introduced a new National Funding Formula (NFF) for Schools, High Needs and the Central Schools services Block. For the Schools Block this means LAs are funded based on the total of the NFF for all schools, academies, and free schools in its area. However, the final

formula for distribution is determined by each Council following consultation with schools and Schools Forums.

- 1.48 Following agreement with Schools Forum, Cabinet, in February 2018, approved the use of the NFF for Harrow Schools' budget allocation.
- 1.49 Provisional allocations for the DSG are included in Appendix 4. The NFF will be used to determine school budget shares for 2025/26. The final DSG allocations and the funding formula will be reported to Cabinet in February 2025 for approval.

BETTER CARE FUND (BCF) 2025/26

- 1.50 The framework for the Better Care Fund (BCF) derives from the government's mandate to the NHS which sets an objective for NHS England to ring fence funding to form the NHS contribution to the BCF. The NHS Long Term Plan, published in January 2019 set out the priorities for transformation and integration, including plans for investment in integrated community services and next steps to develop Integrated Care Systems.
- 1.51 The BCF continues to provide a mechanism for personalised, integrated approaches to health and care that support people to remain independent at home or to return to independence after a period in hospital. The continuation of the national conditions and requirements of the BCF provides opportunities for health and care partners to build on their plans to embed joint working and integrated care further, including how to work collaboratively to bring together funding streams to maximise the impact on outcomes for communities and sustaining vital community provision.
- 1.52 Following submission of the planning template covering the period 2023-2025 in August 2023, and assurance by NHS England, the 2024/25 Adults budget received funding for the Protection of Social Care through the BCF will be £7.954m – an increase of 5.66% on the funding for 2023-24, reflecting the NHS funding commitments made within the spending review.
- 1.53 The total value of the Better Care Fund in Harrow for 2024-25 is £33.2M and includes a range of grants (including the Disabled Facilities and Adults Discharge Grants) and schemes across both Health and Social Care. Within the funding agreed, additional £1.38m is included from the original allocation, to fund within the financial year additional care for patients with complex needs, focusing on residents with Dementia and Delirium.
- 1.54 The Better Care Fund Policy statement and Policy Framework and Planning Requirements will provide the detailed guidance when published in early 2025 (usually March). The requirements around integration and collaborative working are expected to continue.

RESERVES AND CONTINGENCIES

- 1.55 Reserves and contingencies need to be considered in the context of their role to protect the Council's financial standing and in the context of the overall

risks that the Council faces during a continuing period of economic uncertainty. The MTFs reflects the Council's need to ensure an adequate level of reserves and contingencies which will enable it to manage the risks associated with delivery of the budget including equalities impacts and unforeseen events.

- 1.56 The Council's overall reserves position is reported to Cabinet quarterly as part of the revenue monitoring update. At quarter 2 (end of September 2024), total reserves forecast for carry forward into 2025/26 are as follows:

	£m
• Community Infrastructure Levy (CIL)	£11.8m
• Housing Revenue Account (HRA)	£18.6m
• General Fund (Earmarked Reserves)	£7.4m
• General Fund (Non-Specific)	£14.1m
• Budget Planning Reserve	£21.2m
• General Fund balances	£10.0m
Total General Fund (excluding CIL and HRA)	£52.7m

- 1.57 The total General Fund Reserves are £52.7m, which includes £10m of General Fund Balances. There is also a forecast DSG deficit reserve of £12.5m. At the end of the financial year, all reserves are reviewed including a focus on ear marked reserves to ensure they are still required for the purpose to which they are designated. The Strategic Director of Finance (S151 Officer) will report on the adequacy of the Council's reserves as required in the budget setting report in February 2025.

- 1.58 In addition to reserves, there is an annual budgeted Contingency for Unforeseen items of £2m which sits within the Corporate budgets. The Contingency is an annual budget, unlike reserves which are one off funds, and can be used to fund unexpected and unforeseen costs including unexpected overspends.

LONDON BOROUGH GRANTS SCHEME

- 1.59 Harrow's contribution to the London Borough Grant Scheme was £196,434 in 2024/25. At the time of writing this report, the Council has not been notified of the recommended contribution for 2025/26. To ensure that the Council can respond to London Councils when contribution rates are notified, it is recommended that Cabinet authorise the Strategic Director of Finance to agree Harrow's 2025/26 contribution to the London Borough Grant Scheme, in consultation with the Portfolio Holder for Finance and Highways. The contribution for 2025/26 will be reported to Cabinet in February 2025 as part of the final budget.

2.0 CONSULTATION

- 2.1 As a matter of public law the duty to consult with regards to proposals to vary, reduce or withdraw services will arise in four circumstances:

- Where there is a statutory requirement in the relevant legislative framework.
- Where the practice has been to consult or where a policy document states the council will consult then the council must comply with its own practice or policy.
- Exceptionally, where the matter is so important that there is a legitimate expectation of consultation and.
- Where consultation is required to complete an equalities impact assessment.

2.2 Regardless of whether the council has a duty to consult, if it chooses to consult, such consultation must be carried out fairly. In general, a consultation can only be considered as proper consultation if:

- Comments are genuinely invited at the formative stage.
- The consultation documents include sufficient reasons for the proposal to allow those being consulted to be properly informed and to give an informed response.
- There is adequate time given to the consultees to consider the proposals;
- There is a mechanism for feeding back the comments and those comments are conscientiously taken into account by the decision maker / decision making body when making a final decision;
- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting and;
- The consultation is clear on the reasons and extent to which alternatives and discarded options have been considered.

2.3 Public consultation on the overall Draft budget for 2025/26 will run for six weeks from 18 December 2024 to 29 January 2025 before the final budget is approved by Cabinet on 20 February and then recommended to Full Council on the 27 February 2025. The public consultation will give residents an opportunity to comment on the 2025/26 overall budget before final decisions are formalised in the council's annual budget. Other key stakeholders, including Union Representatives, local businesses, employees, and the Council Scrutiny function will also be fully consulted on the draft budget and MTFs before final approval. Once the consultation has closed then the cumulative equality impact assessment on the budget can be completed.

2.4 In terms of service specific consultations, the council has a duty to consult with residents and service users in several different situations including where proposals to significantly vary, reduce or withdraw services. Consultation is also needed in other circumstances, for example to identify the impact of proposals or to assist with complying with the council's equality duties. Council sets the budget envelope and Cabinet works within this. Where appropriate, separate service specific consultations will take place for the 2025/26 savings and may be subject to a separate Cabinet report and Cabinet decisions as necessary.

3.0 PERFORMANCE ISSUES

3.1 In terms of financial performance, Cabinet is updated quarterly on forecast spend against the agreed budget and achievement of savings built into the budget. The same information is also presented to the Performance and Finance Scrutiny Sub Committee when it meets during the year.

4.0 RISK MANAGEMENT IMPLICATIONS

4.1 Risks included on corporate or directorate risk register? Yes – Inability to deliver the Council’s MTFS is included in the Corporate Risk Register

Separate risk register in place? No

The relevant risks contained in the register are attached/summarised below.
Yes

The following key risks should be considered when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
Inability to deliver the Council’s approved MTFS - over the next 3 years leading to an inability to set a balanced budget and provide core services	<ul style="list-style-type: none"> • In-year Revenue & Capital monitoring reported to CLT monthly, as well as the Portfolio Holder for Finance and Highways, and Cabinet on a quarterly basis. • Budget challenge sessions held to tackle in year pressures and look for opportunities/savings from February 2024 through to September 2024. • Savings are tracked on a monthly basis via the MTFS savings tracker • Budget for 2025/26 is in the process of being balanced so the focus for attention is the 2026/27 and 2027/28 budget gaps. 	RED
The draft budget and MTFS is based on the 2024/25 Financial Settlement, which was received in January 2024. The 2025/26 Finance settlement will not be announced until 19 December 2024, so there is still uncertainty in many of the numbers.	<ul style="list-style-type: none"> • Draft budget and MTFS based on most up to date information from London Councils and MHCLG and is based on prudent sensible assumptions • The final budget will be prepared considering the Final Settlement. Any changes will have to comply with the legal requirement to set a balanced budget. • There is a contingency for unforeseen items (£2m) which is intended to support uncertainty 	AMBER

Balanced budget for 2024/25 not achieved adversely impacting on the 2025/26 budget	<ul style="list-style-type: none"> • The 'Q2 Revenue and Capital Report' forecasts a net overspend of £2.0m. It is anticipated that this should reduce by year end as forecasts build in anticipated spend which may not happen. • The estimated impact of 2024/25 pressures into 2025/26 are accounted for in the draft budget and MTFS • There is a contingency for unforeseen items (£2m) which has 50% that has not been called upon at the time of Q2. 	AMBER
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5.0 LEGAL IMPLICATIONS

- 5.1 Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their council tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from general fund to collection fund.
- 5.2 Local authorities owe a fiduciary duty to council taxpayers, which means they must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of council taxpayers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.
- 5.3 Cabinet is approving these proposals for consultation after which a cumulative equalities impact will be drafted. These proposals will be referred to Council so that Council can approve the budget envelope and set the Council Tax. There will be contingencies within the budget envelope so that decision makers have some flexibility should any decisions have detrimental equalities impacts that cannot be mitigated.

Section 151 of the Local Government Act 1972 states that: "without prejudice to section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 111 of the Local Government Act 1972 relates to the subsidiary powers of local authorities.

Under Section 114 (3) of the Local Government Finance Act 1988, the chief finance officer (S151 Officer) of a relevant authority shall make a report under this section if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that

expenditure.

6.0 FINANCIAL IMPLICATIONS

6.1 Financial Implications are integral to this report.

7.0 PROCUREMENT IMPLICATIONS

7.1 There are no procurement implications arising from this report.

8.0 EQUALITIES IMPLICATIONS / PUBLIC SECTOR EQUALITY DUTY

8.1 Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties, they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard to the need to:

(d) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(e) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(f) Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard; in particular, to the need to:

- (a) *Tackle prejudice, and*
- (b) *Promote understanding.*

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

The relevant protected characteristics are:

- *Age*
- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

8.2 Directorate proposals will be subject to an initial equalities impact assessment followed by a full assessment where appropriate. These will be published along with the final budget and MTFS report to February Cabinet. An assessment will also be carried out on the whole budget which will include any relevant information from the budget consultation, when all proposals have been identified, to ensure that decision makers are aware of any overall equalities impact on the protected characteristics listed above.

Council Priorities

The Council's draft budget and MTFS for 2025/26 has been prepared in line with the Council's priorities:

1. **A council that puts residents first**
2. **A borough that is clean and safe**
3. **A place where those in need are supported.**

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed by the Chief Financial Officer

Date: 02/12/2024

Statutory Officer: Jessica Farmer

Signed by the Monitoring Officer

Date: 03/12/2024

Chief Officer: Sharon Daniels

Signed off on behalf of the Managing Director

Date: 02/12/2024

Procurement: Nimesh Mehta

Signed by the Assistant Director of Procurement

Date: 04/12/2024

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

**EqlA carried out: NO – to be reported as part of the February 2025
final budget report**

**Section 4 - Contact Details and Background
Papers**

Contact: Sharon Daniels – Strategic Director of Finance (Section
151) Sharon.Daniels@harrow.gov.uk

Background Papers: NONE

**Call-in waived by the Chair of Overview and Scrutiny
Committee: NO**