

## Report of the Chief Finance Officer

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. The economic climate and the 2018/19 Local Government Financial Settlement have only increased the challenges around setting a balanced budget for 2018/19. Harrow Council was not in a position to accept the 4 Year Settlement Offer (2016/17 to 2019/20) which saw its Revenue Support Grant (RSG) reduce by 93% over the four year period. Whilst it is reassuring that the Council's actual RSG for 2017/18 and 2018/19 was in line with that included in the Settlement Offer, the Council remains at risk of an annual financial settlement for 2019/20. There are significant areas of uncertainty around further cuts, the 100% retention of business rates, income streams, transfer of responsibilities from central government, Adults and Children's Social Care, homelessness and the degree of change occurring across the Council that needs to be mitigated. In the wider economy there remains considerable uncertainty about 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 and may therefore create additional demand on services.

The Council set a three year Medium Term Financial Strategy (2017/18 to 2019/20) to set a clear direction of travel and to allow the time to adequately plan for those saving proposals and initiatives that required a longer lead in time. As part of the budget setting process for 2018/19 the existing MTFs has been refreshed and rolled on a year to reflect the Council's changing financial position and to allow for a review of the proposals in development in the MTFs for 2018/19 and 2019/20 to assess whether they were robust enough to remain within the budget or needed to be reversed out and replaced. A number of significant savings have been reversed out of the MTFs as a de-risking strategy and the MTFs clearly shows the remaining budget gaps of £17.636m and £16.061m for 2019/20 and 2020/21 respectively.

The advice of the S151 Officer is that the budget for 2018/19 is sufficiently robust but there are budget gaps for 2019/20 and 2020/21 which will require robust proposals in development to address. However this advice is given, following the consideration of a number of factors:

- Saving proposals have been explored and scrutinised in some detail by various forums and Directorates have confirmed that they are achievable.
- Those proposals in development for 2019/20 and 2020/21 will be subject to further scrutiny before final approval in their respective budget years
- Growth of £9m has been provided for within the 2018/19 budget. Service managers have made reasonable assumptions about demand led pressures and such pressures are monitored closely throughout the year with variations being tightly controlled
- 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 2018/19 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 tightly controlled and contained within service budgets unless there is an agreement the variation is managed pan organisation

### 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 Council holds a general fund balance of £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 6% of the council's budget requirement for 2018/19 (£169m). This balance of £10m does place Harrow Council in the lower quartile of general fund balances. No draw down on the general fund balance is forecast for 2017/18 and the three year MTFs (2018/19 to 2020/21) does not rely upon such balances. The general fund reserves are sufficiently adequate however they must not drop below the £10m level and no allocations should be made unless already planned and there are no such plans. Taking into account the significant challenges ahead, dependent upon the outturn position, consideration will be given to making a contribution to general balances.

In addition to general balances the Authority holds a number of other suitable reserves which are set out in Appendix 9. The estimate of these balances is £8.1m at the end of 2017/18 and a reduced balance of £5.9m by the end of 2018/19.

The 2018/19 budget still includes the on going revenue contingency of £1.248m for unforeseen items.

In conclusion the advice of the Section 151 Officer is that, having considered the need for balances and the budget risks, the level of reserves held are considered sufficiently adequate but only on the basis that any potential adverse budget variations are tightly controlled and contained within service budgets.

### Budget Monitoring

The Local Government Act 2003 also introduced requirements in relation to budget monitoring and management action. Budget monitoring arrangements are in place in Harrow which monitor and report the performance of the revenue and capital budget and the progress of all saving proposals and income generation opportunities built into the budget. These arrangements remain continually under review to ensure they keep pace with the requirements of the organisation. 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.

