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THE CABINET

**Wednesday, 11th February, 2015 at 8.15 pm in the Conference
Room, Civic Centre, Silver Street, Enfield, EN1 3XA**

AGENDA – PART 1 TO FOLLOW PAPERS – 2ND DESPATCH

**6. BUDGET 2015/16 AND MEDIUM TERM FINANCIAL PLAN 2015/16 TO
2018/19 (GENERAL FUND) (Pages 1 - 12)**

A report from the Director of Finance, Resources and Customer Services has been circulated previously with the agenda for the above meeting. Please find attached the remaining appendix to the report which was marked as “to follow” together with an amendment sheet, as detailed on the attached documents. **(Key decision – reference number 3957)**

(Report No.158)
(8.20 – 8.30 pm)

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Government Funding Change

Amendment to the Budget 2015/16 and Medium Term Financial Plan 2015/16 to 2018/19 (General Fund).

In the final Government budget settlement for 2015/16 published on the 3rd February, the reduction in Revenue Support Grant (RSG) was not as high as forecast. The expected RSG was £58.811m and the final amount confirmed is now £59.325m, a difference of £0.514m.

This sum will be placed into contingent items and a decision can be made as to its utilisation as part of the 2015/16 revenue monitoring process.

The changes to the tables in the report (highlighted in yellow) are set out below and will be reflected in the report to Council:

5.3 Enfield's 2015/16 Settlement is set out in the table below:

Table 1: Enfield Settlement	2014/15 Settlement £'000	2015/16 Settlement £'000	2014/15 to 2015/16 Settlement £'000
Formula Funding	125,400	104,665	(20,735)
2011/12 Council Tax Freeze Grant	3,018	3,007	(11)
<u>Rolled in core grants 2013/14:</u>			0
Early Intervention Grant	10,855	9,888	(967)
Learning Disabilities Grant	5,195	5,176	(19)
Lead Flood Authority Grant	132	132	0
Homelessness Grant	539	537	(2)
2013/14 Council Tax Freeze Grant	1,204	0	(1,204)
Council tax freeze compensation		2,415	2,415
Local Welfare Provision (Social Fund)	1,087	818	(269)
Returned Holdback	194	0	(194)
Settlement Funding Assessment (SFA)	147,624	126,638	(20,986)
Made up of:			
Revenue Support Grant	80,486	59,325	(21,161)
Baseline Funding:			0
Business Rate Top-Up	34,616	35,277	661
Local Business Rates (30%)	31,435	32,036	601
Local Welfare Provision (Social Fund)	1,087	0	(1,087)
Settlement Funding Assessment	147,624	126,638	(20,986)

7.2 Pressures

Table 5: Medium Term Financial Plan Pressures		2015/16 £'000
New Demographic pressures This pressure continues year on year in order to meet increased demand for Council services. This includes services to older people and those with disabilities.		1,410
Price Inflation & pay awards The rate of inflation is currently 1.2% (September CPI). 2015/16 also includes provision for extending the payment of the London Living Allowance and pay award provision.		1,784
Capital financing including interest charges Investment in schools, regeneration and highways improvements which is met by new borrowing and is repaid over the life of the asset.		2,577
Welfare reform - temporary accommodation Temporary Accommodation budget pressure		7,679
Schools & Children's Services Pressure Demand led Children's services pressures arising from the 2014/15 revenue monitoring process.		1,137
Other Items		(406)
Total		14,181
Reduction in Government and business rate funding Loss of income from the Government from budget reductions, fall out of Council Tax Freeze Grants and change in business rate income		21,501
Total Pressures		35,682

8.3 Statutory Calculations

Table 7 Budget Position & Council Tax	2014/15 £000's	2015/16 £000's
Net revenue budget		
Schools Budget	293,796	307,837
Other Services (base budget)	260,652	244,369
Dedicated Schools' Grant	(293,796)	(307,837)
	260,652	244,369
Pressure (Cost increases)	8,080	14,181
Full Year Effect of previous savings decisions	(12,191)	736
Contribution to Enfield 2017 Reserve	0	3,337
Proposals for savings (Appendix 2)	(10,968)	(32,087)
Council Tax Freeze Grant 2014/15	(1,204)	1,204
Council Tax Freeze Grant 2015/16	0	(1,204)
Other General Grants	0	381
Net Budget	244,369	230,917
Less:		
Revenue Support Grant	(79,263)	(59,325)
Business Rate Top Up	(34,616)	(35,277)

Table 7 Budget Position & Council Tax	2014/15 £000's	2015/16 £000's
Retained Local Business Rates	(33,211)	(32,573)
Collection Fund Net Surplus	319	(2,825)
Council Tax Requirement	97,598	100,917
Tax Base (Band D equivalents)	88,698	91,714
Council Tax (Band D)	1,100.34	1,100.34

10.3 Medium Term Financial Plan

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Council Tax Base Provision	97,598	100,917	101,893	102,869
Inflation / Pay Awards	1,684	2,500	2,500	2,500
Additional costs of population growth	1,410	1,580	2,000	0
Other cost increases	11,087	11,431	6,905	7,005
Savings Identified	(32,087)	(9,180)	(9,083)	27
Reductions in Government Funding	21,501	12,620	10,327	9,781
Council Tax Freeze Grant 2015/16	(1,204)	1,204		
Contribution to reserves	3,337	(3,337)	0	0
Gap still to be found	0	(18,113)	(11,687)	(18,282)
Full Year Effect of Previous years	736	(554)	14	0
Collection Fund	(3,144)	2,825	0	0
Budget Requirement	100,917	101,893	102,869	103,900
Taxbase (110,420 2012/13)	91,714	91,714	91,714	91,714
Band D Charge	£1,100.34	£1,110.98	£1,121.62	£1,132.87
% tax change	0%	1%	1%	1%

**STATEMENT OF THE SECTION 151 OFFICER UNDER THE REQUIREMENTS
OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003**

**ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF THE
RESERVES- FEBRUARY 2015**

1 Introduction

The Local Government Act 2003 places a duty on the Chief Finance Officer (the Council's Section 151 Officer) to report to Council as part of the budget process on the robustness of the estimates and the adequacy of the proposed financial reserves.

Guidance on balances and reserves is provided by Local Authority Accounting Panel (LAAP) Bulletin 77 (Nov 2008) which is the basis on which the Chief Finance Officer's annual financial risk assessment has been updated in the Council Budget report to Council. The LAAP emphasises the importance of taking account of the council's medium term plans and forecasts of resources, and not to focus solely on short term considerations. The majority of council services face external demand and cost pressures in future years, but two key policies that clearly fit into the council's medium term planning are:

- Enfield 2017 Transformation Programme and
- The need for capital investment as reported and agreed by Cabinet and Council its

This Appendix focuses on the robustness of estimates and the adequacy of reserves which are central to the Council's risks and uncertainties and need to be considered together. It brings together the issues included the 2015/16 budget report, and monitoring of the 2014/15 budget and capital programme.

2 Processes

Budget estimates are exactly that, estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives members reasonable assurances that the budget has been based on the best available information and assumptions.

To meet the requirement on the robustness of estimates a number of key processes are in place, including:

- the issuing of clear guidance to all officers involved in the preparation of budgets;
- peer review by finance staff involved in preparing the standstill base budget i.e. the existing budget plus identified full year effects and pressures;
- the use of budget monitoring in 2014/15 in order to re-align budgets with current demand, for 2015/16 to update the medium term plan scrutiny and review via Council Management Board of proposed savings and their achievability;
- review of the budget by the responsible Cabinet Member for the budget;
- the Chief Financial Officer providing advice throughout the process on robustness, including reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy); and

Notwithstanding these arrangements which are designed to test the budget throughout its various stage of development, considerable reliance is placed on the Service Managers having proper arrangements in place to identify issues, project demand data, and consider value for money and efficiency.

3 Robustness of Revenue Estimates

The 2015/16 draft budget includes over £35.7m of budget cost pressures partially balanced by offsetting savings and increased income. As part of developing the budget, Members have considered these options and they are reflected in the proposed budget.

The departmental savings identified to balance the 2015/16 budget have been closely scrutinised by both officers and Members and where appropriate equality impact assessments have been completed. Savings approved in the budget round will be closely monitored through 2015 until they are fully embedded into the Council's budget.

In addition to the 2015/16 departmental savings, agreed as part of the 2015/16 budget setting process a further £15.1m of Enfield 2017 savings have been identified in 2015/16 with savings of £7.1m for 16/17 and 17/18. The Enfield 2017 efficiency programme is the delivery mechanism for achieving this. Across the authority a significant proportion of the recently achieved savings have been through modernisation of service delivery and other initiatives. The development and implementation of these savings is well underway, although as with all transformation programmes, there is risk that some of these savings may not be implemented as originally scheduled.

The risks in relation to the achievement of both the departmental and the Enfield 2017 savings are taken into account in setting the level of contingencies and general balances. The monitoring of the achievement of these savings, as in previous years, forms an integral part of the 2015/16 revenue monitoring process and if required, appropriate action will be taken to ensure that they are delivered, or if not the first call will be a review of other savings measures to compensate for any shortfall. Failing this, reserves and balances will be considered until this major project is fully implemented.

To assess the adequacy of reserves, the key financial assumptions underpinning the budget and Medium Term Financial Plan are reviewed in accordance with the criteria recommended in LAAP 77.

1. The treatment of demand led pressures

The major demand factors affecting the 2015/16 and later years' budgets are:

- **Demographic pressures.** The draft budget and Medium Term Financial Plan provide for significant additional cost of services due to increases in client numbers.
- **Future funding.** The Government has not announced figures beyond 2015/16. There is considerable uncertainty which will not be addressed until after the 2015 General Election

- **Legislative Changes:** The localisation of council tax support and introduction of universal credit are affecting demand on services in Enfield. There is a pattern of claimants moving to Enfield along with increases in cost.

All senior managers have again reviewed their base budgets including demand-led pressures based upon budget monitoring and projections made by service managers of demand in future years. Service managers are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their service budgets. If this is not possible and under-spending management action or policy actions in other service areas are not sufficient to cover the additional demand, then the minimum level of balances may have to be used to temporarily address the additional expenditure.

Such an eventuality has been considered in future years' budgets and it is assumed that general fund balances would be restored to at least the minimum prudent level in the following year.

2. The treatment of inflation and interest rates.

Inflation has not been centrally provided for in 2015/16 and the Medium Term Financial Plan. Services are required to manage inflation pressures within their budgets through procurement efficiencies and all providers of public services are expected to contribute to the management of the reductions in Government funding.

The risk that Council income will be less than budgeted due to economic problems has been factored in when calculating service budgets and contingencies. Specific fees and charges are set at levels where increase can be achieved without damaging services to residents. Council tax collection levels have been adjusted to take into account the local council tax support system based on actual collection since 2013/14. The 2015/16 collection estimate is projected over the life of the MTFP as achievable but will continue to be closely monitored to ensure collection estimates used are achievable.

Interest rates for 2015/16 have been assumed at 0.5% from April 2015 for temporary investment. Most of the Council's debt is long term with fixed interest rates, with 4.0% assumed for any long term new borrowing resulting from the draft Capital Programme. The revenue financing costs for the approved Capital Programme are provided for in the draft revenue budget. In addition, an Interest Equalisation Fund still exists to protect the Council from future interest rate fluctuations in the short / medium term.

3. Estimates of the level and timing of capital receipts.

In the short term, unapplied capital receipts are treated as general cash balances. Capital receipts are used in the long term to finance new capital investment. Delays in capital receipts may add to short term borrowing costs but current low interest rates mean this is a small risk to the Council's financial standing at present. This risk will increase in future where major projects are to be financed by disposal of the land involved.

4. The treatment of efficiency savings/ productivity gains.

All service managers have a responsibility to ensure the efficient delivery of services and when efficiency savings are proposed that those savings are both realistic in terms of the level of savings and timing. Should the level and timing of such savings vary due to unforeseen events and under-spending, management action or policy actions within the relevant department and corporately if appropriate, will be implemented.

5. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments.

The sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service volumes). If risks materialise they will be considered in future years' budgets and General Fund reserves restored to at least the minimum prudent level.

The Council is undertaking regeneration within the borough using commercial opportunities to increase investment and generate greater revenue income and capital receipts in the longer term. This approach involves greater risk to the Council which has been included in the risk assessment but will be refined as the scheme details are finalised.

6. The availability of other funds and insurance to deal with major contingencies.

Besides the general budget contingency of £1m, there are also General Balances of £14m and estimated General Fund Earmarked Reserves estimated at 31st March 2014 to be £69.8m (**Appendix 7(b)**).

The minimum level of general balances assumes that management 2015/16 and policy actions will be taken to address major issues that might arise. Should these be insufficient, general balances may have to be used temporarily and restored to at least their minimum prudent level or the optimal level through future budgets.

The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. External premiums are also managed by an excess payable by Enfield Council for claims received. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations and those specific to the authority.

The level of the Insurance Reserve was subject to an actuarial review in 2012. At present it is judged to be adequate, the position being that estimated outstanding liabilities are covered by the balance on the Reserve.

7. The overall financial standing of the authority

In addition to the revenue spend that the Council will incur in 2015/16, it also has a Capital Programme that requires significant borrowing in 2015/16 and future years (Appendix 9). This is assessed as affordable based on key projects meeting revenue income stream and capital receipt targets, and for compensating decisions being made on other revenue costs and income to live within the overall affordability

envelope set by the revenue budget. This risk has been recognised in the adequacy of reserves assessment.

The assumed Council Tax collection rate for 2015/16 is 97.33% and is judged to be achievable. For each 1% not collected, the cost is approximately £1.0m in lost income to the Council. Legislation requires that any Collection Fund deficit be corrected through the Council Tax in the next year. The Council Tax Collection Fund is forecast to be in surplus at 31st March 2015.

The Government sets the business rates and the Valuation Office Agency determines rateable values and deals with appeals. The Council has made prudent estimates of business rates reliefs and collection levels based on recent experience. Reduction in business rates are subject to a 7.5% floor protection below which the Government will meet any shortfall. Whilst local business rates generate significant income, the 30% share attributable to Enfield reduces the risk significantly in relation to 2015/16 and future years.

The Collection Fund for Business Rates as at 31st March 2015 is estimated to be in deficit. This arises from back dated business rate appeals that should have been met by the Government before closing the former NNDR Pool on 31 March 2013. The 2015/16 NNDR1 includes a significant provision for back dated appeals based on experience gained over the last two years. The impact on Enfield has been included in the 2015/16 budget.

8. The authority's track record in budget and financial management.

The Council's recent track record in budget and financial management is one of underspending although the latest revenue monitoring forecast an overspend of £2.88m in 2014/15.

The full year effect of previous decisions, demographic growth and legislative change has been identified and will continue to be identified during the budget and Medium Term Planning process.

Ultimately, financial performance relies on all budget managers actively managing their budgets and complying with financial regulations, including not committing expenditure if there is insufficient budget provision.

9. The authority's capacity to manage in-year budget pressures.

The Council has a good track record in managing in year pressures. These pressures have been identified and reported at an early stage through the monitoring process and departments have in most cases been able to identify plans to absorb the cost. Specific contingent items have been identified and put aside to mitigate risk. For example a contingent item was set aside and subsequently allocated for the loss of income departments have experienced as a result of the economic downturn.

10. The strength of the financial information and reporting arrangements.

It is good practice to ensure that financial information and reporting arrangements are robust and can be used as a management decision making tool. To support this requirement, the Council is continuing to improve the usability of the system (SAP) for non-financial users.

The key driver for the programme is to maximise the investment made to date in SAP as a key business system. This in turn will underpin effective service delivery by exploiting additional functionality available and lead to enhanced financial and budgetary management information across the Council.

The programme consists of over a dozen projects that will help to deliver enhanced data quality and processes leading to improved management information. The following tasks were completed before the end of January,

- base salary estimates
- risk based balances calculation;
- prudential borrowing – a model was tested with advisors

4 Risk

It is expected that the key budget risks will be:

- Adult and children social care- demographic pressures and new statutory responsibilities
- Temporary accommodation
- Care Act 2014, Better Care Fund and Welfare Reform.
- Scope to make savings while maintaining services
- Further reductions in public expenditure and future legislation creating extra burdens that are not fully funded
- Capital programme. Managing the programme to meet deadlines within agreed allocations, income and capital receipt targets

The budget assumptions and potential changing circumstances will require forecasts for future years to be reviewed early in each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the autumn of each financial year.

There is also a significant uncertainty pending the next General Election as no firm public spending figures for councils has been published for 2016/17 and beyond.

5 Capital Budget 2015-2019

The approved programme's revenue implications are incorporated in the MTFP and Risk Assessment. The Council's policy has been to fund its Capital Programme over the four year MTFFS cycle, mainly from three sources, capital receipts, grants and unsupported borrowing. New commercial schemes will increase the risk to the Council should property and financial markets not perform as expected.

The Capital Programme (Appendix 9) clearly sets out those projects where approval has already been agreed and funding fully incorporated within the Medium Term Financial Plan. However, the report includes an additional table of indicative items where further review and evaluation should be undertaken before funding is committed.

Over the forthcoming months these schemes will be reviewed by officers and proposals brought forward to future Cabinet meetings for decisions on their affordability and value in the current economic climate.

The Council may consider the overall affordability of the Capital Programme in future years and may choose to “cash limit” it based on resourcing available for future years. In the meantime regular programme updates are presented to Cabinet throughout the year to inform decision making and to show progress against agreed budgets.

Risks include:

- Firstly is the risk of a shortfall in capital funding such as new capital receipts that would result in an increased need to borrow or delay schemes.
- Risk of the economy faltering resulting in housing market falls and reduction in land and asset values resulting in lower income and capital receipts than planned which may affect the viability of the commercial elements of the capital programme.
- The ability of the Council to fully deliver the programme within the agreed timescales and resultant unplanned cost of delays

The Council’s Capital Programme set out elsewhere in this report. All the various major capital projects require clear business cases to be completed including a full assessment of affordability and management of risk at each major stage before they are progressed.

6 Adequacy of the level of General Balances

Under the 2003 Act, the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their Chief Financial Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a percentage of the Council’s budget. It is the Council’s “safety net” for unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years’ revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate levels of balances is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council’s track record in budget management.

The table below brings together the risk quantification, the current level of General Fund balances and the value of specific reserves as yet not committed and which could be available to temporarily meet unplanned costs. The summary indicates that the Council has sufficient funds available to meet one-off expenditure in the short term based on the likely cost if the risks materialised.

MTFP Risk summary (Excluding Schools & HRA)	Likely £m
Risk Evaluation (appendix 8(b), column 4)	9.772
Estimated General Fund Balance at 31 March 2014	(13.996)
Forecast Reserves uncommitted (Appendix 7(b))	(19.410)
2014/15 latest forecast outturn (December Monitoring)	2.880
MTFP Resources to risks at 31 March 2016	(20.754)
Future risks if not addressed in 2015/16 MTFP	19.490
MTFP Resources Shortfall to risks in longer term	(1.264)

It should be noted that the consequences of not keeping a minimum prudent level of balances can be serious. **Appendix 8(b)** identifies risks in excess of the balances and reserves shown above and whilst this scenario would never arise, in the event of a major problem or a series of events, the Council might run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

Any drawing from balances to meet non-budgeted expenditure or loss of income has to be made good in the following year's base budget, which would compound the risks in that year and weaken the Council's financial standing should the minimum level be breached.

Council should note that whilst the Council may be able to meet the assessed risks in 2015/16, later year's shows that the Council has inadequate cover for the risk associated with the Council's revenue and capital financial plans.

7. External Auditor's Review of the Council's arrangements for securing financial resilience.

As part of the external auditor's work on Value for Money, an annual review is undertaken to determine if the Council has proper arrangements in place for securing financial resilience. The review looked at:

- Key indicators of financial performance
- Its approach to strategic financial planning
- Its approach to financial governance: and
- Its approach to financial control
- The report concluded that all areas were assessed as 'green' with no cause for concern and that the Council has adequate arrangements in place for achieving financial resilience. However, the following recommendations are important to the financial standing of the Council:
 - To continue to ensure that the arrangements in place to support financial planning remain comprehensive and robust.

- To continue to monitor and maintain adequate and appropriate levels of reserves.
- To ensure value for money and where possible, take action to monitor and take action on costs through the transformation programme and service reviews

8. Conclusions, Statutory Advice and Guidance of the S151 Officer

The continuing reduction in public spending and growing demand for services requires the Council to ensure its financial planning is robust. The National Audit Office (NAO) has warned in its first assessment of the sector's financial robustness that the government must establish mechanisms for dealing with "widespread financial failure" in local authorities. The report stated that Whitehall was failing to understand the combined effects of its policy reforms on councils' finances. Despite councils having "generally coped well" with the significant cuts made to their budgets, the NAO's Head warned that councils would struggle to absorb further cuts over the next two years without reducing services.

It is clear from the Chancellor's recent budget statements that cuts in local government funding are likely to continue at least until 2018. The Council's medium term financial planning process recognises this and has identified that in excess of £50m of savings will be needed between 2016/17 and 2018/19 to balance the budget. This is clearly a significant challenge given the extent of efficiencies that have already been identified over the last four years. Despite these substantial cuts in Government grants, Enfield remains a successful, high performing Council, continuing to deliver high quality services across the borough.

Taking account of all the above considerations, the Director of Finance, Resources & Customer Services is of the view that the 2015-16 budget is robust.

In the light of the risks facing the authority, the Director of Finance, Resources & Customer Services recommends that the General Fund balance is maintained at £14m and that this recommendation is taken into account when determining the level of transfers to and from reserves in the 2014/15 revenue outturn.