



## London Borough of Enfield

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<b>Title of Report:</b>	Medium Term Financial Plan (2024/25 to 2028/29)
<b>Report to:</b>	Cabinet
<b>Date of Report briefing:</b>	13 <sup>th</sup> September 2023
<b>Cabinet Member:</b>	Cllr Tim Leaver (Finance & Procurement)
<b>Directors:</b>	Fay Hammond, Executive Director – Resources Kevin Bartle, Interim Director of Finance (Corporate)
<b>Report Author:</b>	Neil Goddard, Head of Financial Strategy
<b>Ward(s) affected:</b>	All
<b>Key Decision Number</b>	KD5641
<b>Implementation date, if not called in:</b>	
<b>Classification:</b>	Part I Public
<b>Reason for exemption</b>	

### Purpose of Report

1. This report provides the first update of the funding and spending assumptions in the Medium Term Financial Plan, in what continues to be a dynamic and challenging economic context.
2. This report will set out:
  - National and Local economic context
  - Government Funding outlook
  - Budget requirement and review of funding and spending assumptions
  - Mitigating actions and next steps
  - Review of earmarked reserves

## **Recommendations**

3. Cabinet is recommended to:
  - a) Note the forecast preliminary budget gaps of:
    - £39.4m in 2024/25, prior to any increase in Council Tax, revision to the Council Tax Support scheme, savings and any additional Government funding.
    - £118.6m gap across the medium term to 2028/29, and the reasons driving the gap, notably high inflation, demography, unprecedented increase in Temporary Accommodation costs, arising from a lack of available property and increasing capital financing costs as interest rates continue to rise.
    - These forecasts are subject to a significant number of variables and estimates and are highly likely to change, but nevertheless represent our best estimates at this time.
  - b) Note the scale of the challenge and the need for the organisation to consider different ways of operating in order to remain financially sustainable in the long-term.
  - c) Note that in addition to the 2024/25 budget gap, there is a forecast £25.8m overspend for 2023/24 and Executive Directors and officers are implementing mitigating actions to reduce the in-year overspend.
  - d) Note the risk associated with managing the Temporary Accommodation pressure. Reducing the forecast overspend is a Council priority and growth is built into the estimated gap assuming the mitigating actions are successful.
  - e) Note the continued prioritisation of increased budget requirement in Adult Social Care and Children's Services of £12m to meet inflation, demand and demographic pressures.

## **Reason for Proposals**

4. The Council has a statutory duty to approve a balanced budget for 2024/25 in February 2024 along with consideration of the finances over the medium term, and the Council's reserves. It is essential that there is a clear understanding of the anticipated income and expenditure flows for the Council, despite the uncertainties. The measures referenced in paragraph 78 are the steps by which the Council will ensure that it meets its statutory duty to set a balanced budget for 2024/25.

## **Relevance to the Council Plan**

5. The primary purpose of the development of the Budget and Medium Term Financial Plan is to direct resources to deliver the priorities set out in the Council's Plan 2023-26:
  - Clean and green places
  - Strong, healthy and safe communities
  - Thriving children and young people

- More and better homes
  - An economy that works for everyone.
6. It is not possible for the Council to deliver on its ambitions for local people if these are not in place and the financial strategy is a key pillar on which success is built. As part of this, one of the principles of the Council Plan 2023-26 is financial resilience and commits to:
    - a. Deliver excellent value for money in all that we do and target our resources smartly to enable us to meet the needs of our residents, now and in the future.
    - b. Plan ahead carefully, making decisions based on evidence of what works, to deliver on the priorities set out in the plan.
    - c. Invest in our organisation to become more efficient and effective in what we do, in order to prevent higher costs for the future. This includes ensuring we have the right digital infrastructure in place.
    - d. Deliver our long-term regeneration programme for the borough to drive transformational change for Enfield and achieve better outcomes for local people. This will also support our financial resilience by growing the local economy and Council Tax base.
    - e. Look for new and innovative ways to generate income, so that we have additional funding to invest in services over the long-term. In line with our new Sustainable and Ethical Procurement Policy, we will use our significant purchasing power to help us achieve our strategic objectives, ensuring our suppliers show a wider commitment to the borough, our residents and local businesses through the delivery of social value.
  7. Financial Resilience remains at the heart of the approach to budget management at Enfield, and considerable work has been undertaken to establish a stable and more resilient position over recent years.

### **Economic Context**

8. Our requirement to set a balanced budget is increasingly challenging given the dynamic and challenging national and local economic context.
9. The mini budget of September 2022 represented a change in economic policy, with the wider economic fallout from this continuing to impact inflation, borrowing costs and cost of living pressures.
10. Increasing food and energy costs pushed UK inflation into double digits for the first time since 1982, hitting 10.1% in the 12 months to July. Regular increases to the base interest rate have had some impact, with the Consumer Price Index (CPI) at 7.9% as at June 2023, down 0.8% from the previous month. Falling prices for motor fuel led to the largest downward contribution to the monthly change in CPIH and CPI annual rates, while food prices rose in June 2023 but by less than in June 2022, also leading to an easing in the rates.
11. The Bank of England (BoE) target is to reduce inflation back down to 2%. CPI inflation is expected to fall further during the course of the year, however, BoE doesn't expect to hit the target of 2% until late 2024. Recent economic policies are starting to take effect but even then not at the rate anticipated. Inflation (CPI) was last reported at 7.9% in the 12 months to

June 2023 and the previous forecast which targeted 5% by the end of December would appear to be at risk.

12. The current BoE base interest rate is 5.25%, which was increased by 0.25% in August 2023 (14 consecutive hikes, the highest rates seen in the UK in 15 years) with further possible increases to come. Whilst further interest rate rises may be required to bring inflation back down, this itself will create further pressure on the Council's capital financing costs.
13. PWLB borrowing rates (which track gilts rates) have risen to around 5.6% (depending on the term). Further increases are expected in the medium term.
14. Public Sector pay is headline news and whilst industrial action has not impacted on local Government the agreed pay awards have, and these add to our financial pressures.
15. Across London, the number of households living in Temporary accommodation has increase by 5.7% in the 12 months to April 2023 and there is a similar reduction in the available of suitable housing supply across the region. Along with pressure on market rents, the lack of supply of affordable accommodation have created significant cost pressures in the Council's Temporary Accommodation budget.
16. Demand led pressures across children's and adult social care persist.
17. The associated cost of living crisis is affecting Enfield's residents and businesses. It is also impacting the Council's cost base and income levels. These economic conditions are impacting on our residents are also on council costs and income levels as set out in the MTFP.
18. It is estimated that approximately half of the budget gap for 2024/25 can be attributed to the current exceptional economic environment.

#### **Government Funding Announcements (including Fair Funding) 2024/25**

19. Since 2010, Council core funding has reduced by £81m; and increasing cost pressures have been offset with over £228m of savings since 2010; compounded by delays in the fair funding review.
20. The funding framework for 2024/25 is broadly understood but the outlook beyond remains unclear, with a General Election due no later than January 2025. The continued short term settlements create great uncertainty and difficulties in financial planning. A return to medium term 3 to 4 year settlements would provide a solution to the current problems.
21. Ministers have now confirmed that the Fair Funding Review (FFR) and other funding reforms earliest date for implementation is now 2025/26 but 2026/27 or even later is more likely given as an assumption that there would be a transition built into the implementation of any reform. This is more than five years later than planned, and since Enfield was expected to benefit from this review, this results in ongoing additional financial pressure and unfairness for residents.
22. With so little clarity at this point, ahead of the anticipated consultation, the 2024/25 - 2028/29 MTFP does not assume any changes due to the FFR.

23. Items in which we are more certain include:
- Social care funding has been announced for 2024/25 and is currently estimated based on 2023/24 allocations applied to national totals. Our estimate is an allocation of £3.4m
  - Whilst we are expecting the Settlement Funding Assessment (SFA) to increase in line with inflation. This includes Revenue Support grant which we estimate to increase by 5%.
  - Retained Business rate, top up element and S31 grants increased forecasts in line with advice from our Collection Fund advisors and national trends.
  - For 2024/25, the core council tax referendum principles will continue the same as 2023-24. The referendum limit for increases to council tax will remain at 3% per year. In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year.
  - The core spending power is guaranteed to increase by 3%.
24. However, there are some areas in which we are less certain:
- The New Homes Bonus and Services grant have been assumed to remain the same as 2023/24 in the current forecasting.
  - The Government has delayed the introduction of the Extended Producer Responsibilities (EPR) which is new legislation requiring retailers and packaging companies to pay the full cost of disposing of and recycling packaging. This funding is then distributed to Councils and is now currently expected to be implemented in October 2025, indicative income is unknown.
  - No decision has been made yet about whether the business rates multiplier will be capped or frozen in 2024/25.
25. A recent independent study revealed that Enfield is the 7th worst underfunded authority relative to need nationally (total of 150 Local Authorities). The Institute of Fiscal Studies (IFS) calculated that the gap between “need” per person in our borough and funding levels as £271 per person and that is 25% less than needed (need per person is £1,083 and funding is £812).
26. Though it is recognised there are issues with the data being used by the IFS, this independent analysis shows that government funding levels fall c25% short of the resources in comparison to relative need, in the context of rising inflation and economic environment, this is a significant challenge for the Council.
27. It is clear, therefore, that there is significant funding uncertainty moving forward. However, despite these challenges, the Council is resolved to face them head-on in setting a balanced, prudent and transparent budget based on the best-known information that is currently available.

## Draft 2024/25 Budget Requirement and review of Funding and Spending Assumptions

28. The economic context described above and the continued lack of certainty over the potential of any further government funding to meet these additional pressures is driving a preliminary budget gap.
29. The base 2023/24 net budget is £286.9m as set out in the Budget report agreed by Council in February 2023. The current estimates show that we would require a budget of £335.0m but only estimate to generate funding of £295.6m, therefore leading to a current forecast budget gap for 2024/25 of £39.4m prior to savings, any additional Government funding, and other actions to mitigate this pressure such as level of Council tax increase and Council Tax support provided. The £39.4m gap represents 13.7% of the Council's net budget or 29% of the Council's budget excluding adults and children's social care.
30. The preliminary gap across the medium term is £118.6m, however the focus is currently on the 2023/24 and 2024/25 positions, given the scale of the gap and need to bring the budget into a balanced position.
31. This budget gap is considerable, and the estimates shown in the tables are based on a prudent set of assumptions, but it is important to remember that these are subject to change e.g. legislation, Local Government Finance settlement outcome, interest rates, inflation, demand - all could change and impact the budget gap for next year and beyond.
32. The current situation continues to be challenging even compared to the period of austerity, with inflation, cost of living and pay awards continuing to be key factors and therefore we have factored in additional budget, the estimate for 2024/25 is £8.5m for inflation and £11.9m for pay awards.
33. Table 1 below shows how the budget requirement builds on the 2023/24 base budget.

Table 1 – Draft 2024/25 Budget requirement

	£m
<b>Base 2023/24 Net budget</b>	<b>286.942</b>
Pay Awards (5% pay award assumed for 24/25 plus £2.5m catch up inflation from 23/24)	11.511
Growth in Temporary Accommodation	9.800
Inflation	8.531
Pressures / £5.105m of other growth items	7.011
Capital Financing costs increasing	6.200
Demography across adults and children's services	3.660

North London Waste Authority levy	1.328
Concessionary Fares returning to pre-covid levels	1.914
Review of savings previously agreed	0.722
Net increase in service specific grants (social care, as announced)	(2.622)
<b>Net budget requirement 2024/25</b>	<b>334.997</b>
<b>Baseline funding 2024/25</b>	(295.600)
<b>Shortfall</b>	<b>39.397</b>

34. Where possible high, medium and low scenarios are estimated and the estimated gap is prudently set on the medium scenario for all areas except for Temporary Accommodation, where the lower estimate has been used given that additional strategies are being implemented with the expectation that they will reduce the current pressure. This does mean that in terms of sensitivity to the budget gap, the Temporary Accommodation is the most significant.
35. Had all the lower estimates been applied, the gap would be circa £3m less. If we had, alternatively, applied all medium estimates this would have increased the gap by circa £4m whilst all higher end estimates would have significantly increased the gap by circa £20m.
36. Table 2 summarises the budget gap and shows the total gap over the life of the MTFP.

Table 2 – Summary of Budget Gap over MTFP period

<b>Summary of budget gap</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Funding Changes	(8.658)	2.100	0.100	0.100	0.100	(6.258)
<b>Spending:</b>						
Inflation	20.042	8.454	8.692	9.996	9.194	56.378
Demography	3.660	3.660	3.660	3.660	0.000	14.640
Pressures	7.011	3.420	4.420	1.920	5.580	22.351
Temporary Accommodation	9.800	(5.500)	1.700	3.100	0.000	9.100
Capital Financing	6.200	4.600	3.100	2.300	(0.400)	15.800
Levies	1.328	1.283	1.288	1.001	0.000	4.900
Concessionary travel	1.914	1.952	0.000	0.000	0.000	3.866

Pre-agreed savings	0.722	(0.222)	0.000	0.000	0.000	0.500
Service specific grants	(2.622)	0.000	0.000	0.000	0.000	(2.622)
<b>Budget gap</b>	<b>39.397</b>	<b>19.747</b>	<b>22.960</b>	<b>22.077</b>	<b>14.474</b>	<b>118.655</b>

37. Table 3 below analyses the 2024/25 budget gap by Service Department

Table 3 – Summary of 2024/25 Budget Gap by Department

Summary of 24/25 budget gap by Dept	HRD/ E&C	CEX / Resources	C&F / Educ	ASC / PH	Corp	Total
	£m	£m	£m	£m	£m	£m
Funding Changes	0.000	0.000	0.000	0.000	(8.658)	(8.658)
<b>Spending:</b>						
Inflation	1.050	0.000	0.456	4.905	13.631	20.042
Demography	0.000	0.000	1.380	2.280	0.000	3.660
Pressures	3.458	0.063	0.794	2.520	0.176	7.011
Temporary Accommodation	9.800	0.000	0.000	0.000	0.000	9.800
Capital Financing	0.000	0.000	0.000	0.000	6.200	6.200
Levies	0.000	0.000	0.000	0.000	1.328	1.328
Concessionary travel	0.000	0.000	0.000	0.000	1.914	1.914
Pre-agreed savings	(1.042)	1.045	0.351	0.168	0.200	0.722
Service specific grants	0.000	0.000	0.000	(2.622)	0.000	(2.622)
<b>Budget gap</b>	<b>13.266</b>	<b>1.108</b>	<b>2.981</b>	<b>7.251</b>	<b>14.791</b>	<b>39.397</b>

### Funding Assumptions

38. As already outlined above, whilst 2024/25 is broadly understood, there are still some areas of uncertainty and there is significant uncertainty around future funding levels. Table 4 below sets out the Government funding and locally raised funding for 2023/24 and 2024/25 which reflects the estimated £8.6m increase.



Table 4 - Funding Changes from 2023/24 to 2024/25

<b>Net Budget Funding</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Settlement Funding Assessment	(110.086)	(117.250)	(7.164)
Corporate Specific Grants	(26.231)	(29.625)	(3.394)
Estimated Business Rates Pool Benefit	(1.481)	(2.000)	(0.519)
Collection Fund Net (Surplus)/Deficit	(2.181)	(0.521)	1.660
Council Tax Requirement	(146.963)	(146.204)	0.759
<b>Net Budget Funding</b>	<b>(286.942)</b>	<b>(295.600)</b>	<b>(8.658)</b>

39. The incremental funding changes over the life of the MTFP are shown in table 5. We are forecasting minimal change in government funding in future years. The £2.0m in 2025/26 reflects that the Business rates pool benefit is only being treated as a one-off for 2024/25.

Table 5 – Funding Assumptions Changes

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Settlement Funding Assessment	(7.164)	0.000	0.000	0.000	0.000	<b>(7.164)</b>
Corporate Specific Grants	(3.394)	0.100	0.100	0.100	0.100	<b>(2.994)</b>
Business Rates	(0.519)	2.000	0.000	0.000	0.000	<b>1.401</b>
Collection Fund	1.660	0.000	0.000	0.000	0.000	<b>1.660</b>
Council Tax Base	0.759	0.000	0.000	0.000	0.000	<b>0.759</b>
Use of Reserves	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
<b>Total</b>	<b>(8.658)</b>	<b>2.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>(6.258)</b>

## **Local Taxation – Collection Fund**

40. An initial review of Council Tax and NNDR assumptions has been made and current assumptions are detailed below. These assumptions will be reviewed further throughout the Autumn.
41. The Collection rate assumptions remain unchanged from the current financial year; however, this will be kept under review.
42. The Collection Fund is currently forecast to be in surplus by £0.521m at the end of 2023/24 and this is currently built into the overall funding forecasts. However, the cost of living crisis is continuing to impact confidence in the recovery of collection rates, which will need to be closely monitored and any change in trends factored into the final budget position in February 2024.

## **Business Rates**

43. The 2024/25 forecast for Business rates has been reviewed in line with advice from our Collection Fund advisors. The latest forecast is a total of £95.5m, made up of the Retained element, Top up and S31 grants. The forecast is based on an assumed rate of CPI which will be kept under review throughout the year.
44. The current collection rate of 93.7% is assumed to remain unchanged in these current set of assumptions.
45. The Council will again be a member of an 8 borough Business Rate Pool for 2024/25. The latest estimated benefit of the 2023/24 pool is approximately £2.0m which is being built in as one-off funding within the 2024/25 budget. This will remain under review with further updates planned for November 2023.

## **Council Tax**

46. For 2024/25, the Council Tax forecast assumes the collection rate remains the same as 2023/24 at 95.75%. The tax base has also been reviewed but should be noted this is still a forecast based early in the year. The forecast is for the tax base to decrease from 96,794 to 96,294. This result in a £0.759m reduction in Council Tax income. This is predominantly due to the increase in Council Tax Support numbers compared to 2023/24 estimates.
47. In 2023/24 the Council Tax referendum threshold was increased from 2% to 3% and the Social Care Precept from 1% to 2% and the settlement announced this would also apply for 2024/25. The current modelling does not assume an increase in Council Tax, but it should be noted that if it were to be increased by the maximum 4.99% this would yield a further £7.3m.

## **Spending Assumptions**

48. Spending assumptions are summarised in Table 6 below and this is an area of focus. A clear additional cost pressure is inflation which includes pay award assumptions.

49. Table 6 – Spending Assumptions

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£m	£m	£m	£m	£m	£m
<b>Inflation:</b>						
Pay Award	11.511	3.979	4.058	4.138	4.220	<b>27.906</b>
Inflation	8.531	4.475	4.634	5.858	4.974	<b>28.472</b>
<b>Demography:</b>						
Adult Social Care	2.280	2.280	2.280	2.280	0.000	<b>9.120</b>
Children's	0.750	0.750	0.750	0.750	0.000	<b>3.000</b>
SEN Transport	0.630	0.630	0.630	0.630	0.000	<b>2.520</b>
<b>Pressures:</b>						
Growth in TA	9.800	(5.500)	1.700	3.100	0.000	<b>9.100</b>
Concessionary Travel	1.914	1.952	0.000	0.000	0.000	<b>3.866</b>
Capital Financing	6.200	4.600	3.100	2.300	(0.400)	<b>15.800</b>
Levies	1.328	1.283	1.288	1.001	0.000	<b>4.900</b>
Pressures / £5.105m of other growth items	7.011	3.420	4.420	1.920	5.580	<b>22.351</b>
Non delivery of savings	0.722	(0.222)	0.000	0.000	0.000	<b>0.500</b>
Service specific grants	(2.622)	0.000	0.000	0.000	0.000	<b>(2.622)</b>
<b>Total</b>	<b>48.055</b>	<b>17.647</b>	<b>22.860</b>	<b>21.977</b>	<b>14.374</b>	<b>124.913</b>

## Inflation

50. Inflation remains an area of risk for 2024/25, and possibly beyond depending on the trajectory of future changes towards the Bank of England's target. The additional budget built into the MTFP for inflation for 2024/25 is £8.5m.
51. Energy costs remain a risk despite recent improvement in market prices. Enfield forward purchases its energy via LASER, the well-known local government energy procurement organisation, and uses its updates to refresh assumptions. Energy costs relate to our corporate buildings and streetlighting within the borough and account for £1m of the inflation pressure.
52. Adult Social Care inflation accounts for a further £4.9m and reflects specific factors such as both national and market developments and predicted wage inflation including National Living Wage. A further £0.5m has been built in Children's Social Care inflation.
53. A general inflation budget of £1.8m and £0.3m have also been built in for 2024/25.

54. These assumptions are based on information available at the time of writing this report and will continue to be reviewed as further information becomes available and reflected in the November Cabinet update.

### **Pay Awards**

55. The pay award (which includes both in-year “catch up” budget and estimated 4.75% for 2024/25) accounts for £11m.
56. It should be noted that the 2023/24 pay award has only been agreed for Middle Management and above at 3.5% which is within the estimated pay award allowed for in the 2023/24 budget. However, the pay award for grades below and majority of employees remains in negotiation at the time of drafting this report. If this is agreed at the rates being proposed this will impact on both 2023/24 as being reported in the Revenue Monitoring report and the compound impact being built into the MTFP.

### **Demography**

57. The demographic growth covers the existing provision for ongoing demand in 2024/25 onwards. Any changes to the underlying budget required as a consequence of pressures in 2023/24 are covered below in the pressures section. The total additional amount factored in is £3.7m.

### **Capital Financing**

58. The impact of the current economic climate impact on cost inflation and interest rises is significant and impacts on our capital investment strategy. A refreshed Capital Strategy is planned to be considered at October 2023 Cabinet, setting out the approach for ensuring our financial resilience in response to the current context of rising interest rates and cost inflation.
59. The MTFP sets out the current forecast impact on MRP and interest; the updated forecast of £6.2m is an increase of £1.2m from February 2023 MTFP. However, the medium term forecast is more positive and future years increases have been revised down from the previous assumed £5m a year increase.
60. Within the Minimum Revenue Provision (MRP) estimate, the Council has included a voluntary annual MRP of £3.3m to effectively repay Meridian Water debt from General Fund revenue, in addition to the mandatory £1.4m charge, giving a total of £4.7m. Charging the voluntary element, however, remains dependent on affordability and thus will be kept under review and updates provided in future MTFP reports to Cabinet.
61. The current MTFP forecast assumes that there will be a reduced level of annual capital spend based on historic spend levels. Given our diminished level of reserves, the level of the capital smoothing reserve will need to be closely monitored which was built up to smooth out the impact and risks of capital financing,
62. Given the unprecedented increase in interest rates, the Council no longer has the capacity to set a contingency for interest rate increases and is estimating the cost of borrowing settling at 5.4% for the medium term. The situation is being kept under review and will be reported to Cabinet as part of the quarterly reporting cycle. Interest rate rises continue to be monitored, given current upward movement and there is a separate interest rate smoothing reserve.

## Levies

63. Enfield, along with six other North London boroughs are members of the North London Waste Authority (NLWA). Each borough will contribute towards the cost of the NLWA via an annual levy based on the volumes of waste tonnages generated. The cost of the NLWA includes the North London Heat and Power Project. This project is building a new Energy Recovery Facility in Edmonton, replacing the existing facility that has served North London for around 50 years. The estimated cost of building the new facility will significantly increase the Council's annual levy requirement and the MTFP reflects these increases over the life of the plan. The MTFP reflects recent revised levy forecasts received from the NLWA for 2024/25 and the next two years.
64. The NLWA has benefited from higher electricity prices, through its subsidiary company London Energy Ltd. It should be noted that electricity prices received by the company have reduced and the government has implemented the Electricity Generation Levy. The 'windfall' income that the Authority received in 2023/24, therefore, is unlikely to be repeated and is as such non-recurrent. The windfall income for 2023/24 has reduced Enfield's levy requirement and resulted in the Council being able to bolster the NLWA earmarked reserve. In turn this has allowed the Council to utilise the reserve to mitigate future years' increases over the next three years.
65. Since the budget was set in February we have received the latest forecast for the Concessionary Fares charge from London Councils. There was a considerable reduction in public transport usage over Covid-19 period, and whilst there had been a recovery of sorts, there has not been a return to the levels of usage pre Covid-19 as at 2023/24. The annual cost of the concessionary travel scheme to the Council was around £11.5m prior to the pandemic. The latest forecasts received reflect that the cost will be rising by circa £1.9m per year for the next two years, taking the annual charges to £10.3m and then £12.3m respectively.

## Pressures

66. There are £16.8m of pressures which currently form part of the 2024/25 budget position, which have been collated as part of the detailed analysis undertaken through 2023/24 first quarter budget monitoring. All pressures are under review to ensure only what is absolutely necessary remains within planning assumptions.
67. The most significant pressure is experienced in the Temporary Accommodation where there is a forecast overspend of £17.5m in 2023/24 (net of grant), which is predominantly caused by a lack of available temporary accommodation at affordable rates and hence a sustained use of expensive hotel accommodation. Mitigations are currently being worked upon and implemented with the aim of reducing and eliminating reliance on hotels and hence reducing the projected overspend in the coming months. The MTFP includes a pressure of £9.8m in 2024/25 but this is based on those mitigations being successful.
68. The Adults pressure reflects the additional demographic pressure resulting from 2023/24 forecasts and projecting for 2024/25. This excludes one-off funding that is reducing (improving) the position for 2023/24 and inflation which is included within the inflation total line of the MTFP.

69. Of the total Children's pressure of £1.5m, the main constituent parts are pressures in leaving care, external care purchasing, the joint service for disabled children, increased cost of the Regional Adoption Agency, and unaccompanied asylum seekers and legal disbursement costs totalling circa £1.5m. Like Adult Social Care, inflation for Children's Social Care of £0.5m has been included in the inflation figures of the MTFP.
70. The forecast cost of coroners and mortuary services are increasing and as such an increase of £0.1m is required in 2024/25 to keep pace with demand.
71. The continued demand for services provided by the financial assessment and Income & Debt teams means that the planned reduction in external support has been reduced and reprofiled into 2025/26.
72. In addition, the impact of an ongoing £2.3m technical adjustment to reflect a stricter approach with costs attributed to capital is built into the MTFP for 2024/25.

### **Review of savings**

73. The savings and income proposals agreed in the budget are monitored throughout the year, these include those that are for savings in future years. Where required these have been reprofiled to reflect current likelihood of delivery, in addition, some savings have been reconsidered such as savings predicated on the implementation of a new finance and HR system which is not due to be progressed until later in the Digital investment programme.

### **Service Specific Grants**

74. The additional service grants are both related to Adult Social Care. The Government announced in the 2023/24 settlement that the ringfenced ASC grant and discharge fund would continue into 2024/25. These are estimated figures based on the allocation methodology applied in the 2023/24 allocations.

### **In year Savings & Income proposals**

75. In the face of the financial challenges for the 2023/24 position and on-going, Executive Directors have been asked to mitigate the in-year overspends and contribute additional savings in order to stabilise the budget. In total, circa £6m of mitigations and savings have been found and have contributed to the Quarter 1 (Period 3) revenue forecast of £25.8m. Without these mitigations and savings, the overspend would have been circa £32m.
76. These will be kept under review and will need further evaluating over the summer months to establish with certainty that they will be achieved and whether they are one-offs for 2023/24 or can be put forward as permanent savings that will be reported to Cabinet in November.

### **Manifesto Commitments**

77. There are 41 manifesto pledges in total, which are being progressed within the four years of the current administration. 27 of the pledges are being progressed within existing budgets. The further 13 pledges are at varying stages of review.

### **Meeting remainder of the budget gap**

78. The identification of savings is underway, and updates will be reported to cabinet in both November 2023 and January 2024. This is a challenging task given the level of savings made since 2010, and it is anticipated some difficult decisions will continue to need to be made. Commitment to identifying these savings is high, with several key actions already underway, including:
- Departmental Deep Dive sessions, covering review of budget pressures, service delivery, statutory vs non-statutory service review, review of staffing structures, and savings and income proposals.
  - Additional spending controls have been implemented in 2023/24
  - No new financial commitments until the budget has been balanced
  - Evaluate 2023/24 in-year savings to ensure deliverability and establish whether they can be considered permanent
  - Early implementation of 2024/25 savings where possible
  - Review of planned capital expenditure.
79. The culmination of this work will feed into the revised 2024/25 budget to be considered by Cabinet in January 2024. It is clear from the scale of the budget gap in 2024/25, and direction of travel for the years after this (including lack of clarity on government funding), that we will have to look fundamentally at how we operate and consider different ways of working.
80. After more than a decade of austerity and total savings of over £200m delivered, an incremental savings strategy will no longer continue to drive savings of the magnitude required looking forward.

### **Reserves and Financial Resilience**

81. Core to the Council's Financial Strategy has been establishing financial resilience. As well as ensuring there are robust budgets and realistic savings there has been a need to strengthen reserves. The 2021/22 year-end position for General Fund reserves was positive, with both the Covid-19 reserve and Risk reserve increased year on year.
82. However, since then the overspend for 2022/23 and forecast overspend for 2023/24 is significantly eroding the reserve balances, and if this is not addressed and if there was a continuing overspend in the region of £25m per year **then the Council's reserves balances would be completely depleted by 2026** (in a little over 2 years' time).
83. This could be considered a worst-case scenario e.g. inflation is beginning to decrease. However, even if the Council were to be able to reduce this to an annual £10m overspend, the reserve balances would still be completely depleted but over a longer period, and by 2029 (in just over 5 years' time).
84. This clearly demonstrates that the current situation is not sustainable, and the Council will address the forecast depletion in reserves with action to balance the budget, protect reserves and maintain financial resilience.
85. The quarter one (June 2023) forecast sees General Fund reserves reducing by £40m, to £64m. All of the reserves are under continuous review and are reported through to Cabinet as part of the Quarterly Revenue Monitoring Reports.

86. The key movements in the reserves are the £25m forecast overspend for 2023/24 based on the Quarter 1 revenue monitor. In addition to one-off use of reserves for the planned £1.5m use of Collection Fund pool that was built into the 2023/24 budget, estimated draw on the redundancy reserve of £1m, application of unapplied grants of £3.3m, application of £4.5m of NCIL/CIL funding for specific projects.
87. There have been planned reductions in the Capital Financing Reserve for a number of years as the budget is increased over time to match the capital financing growth driven through the Capital Programme. The additional £6.2m included in the MTFP and realignment for future years for Capital Financing means there will be no planned use of the reserve for 2024/25 and beyond. The reserves will be there to manage any fluctuations over the budget. Consideration will be given to whether we need to hold this level of reserve and options include transferring to other reserves for specific purposes or adding to the risk reserve to help manage the overall budget.
88. General Fund Balance is at the policy agreed level, however, given the increased risk from inflation this level of reserve will be reviewed and reported on within the budget proposals in February 2024. When assessing the adequacy of unallocated general reserves when setting the budget, consideration is given to the strategic, operational and financial risks facing the authority.

Table 7 – Summary of Forecast Reserves across the Medium Term

<b>Reserve balances at:</b>	<b>31/03/23</b>	<b>31/03/24</b> <b>Q1 Forecast</b>	<b>31/03/25</b>	<b>31/03/26</b>	<b>31/03/27</b>	<b>31/03/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Risk Reserve</b>	<b>(3.440)</b>	<b>(5.419)</b>	<b>(5.419)</b>	<b>(5.419)</b>	<b>(5.419)</b>	<b>(5.419)</b>
Balance Sheet Management	(2.295)	(1.295)	(1.295)	(1.295)	(1.295)	(1.295)
Collection Fund Pooling Reserve	(2.059)	(0.578)	(0.578)	(0.578)	(0.578)	(0.578)
Collection Fund Equalisation Reserve	(13.628)	(13.628)	(13.628)	(13.628)	(13.628)	(13.628)
Housing Benefit Smoothing Reserve	0.726	(0.735)	(0.735)	(0.735)	(0.735)	(0.735)
Adult Social Care Smoothing Reserve	(3.697)	0.000	0.000	0.000	0.000	0.000
NLWA Reserve	(0.514)	(1.566)	(0.694)	(1.005)	(0.004)	(0.004)
Meridian Water Reserve	(1.297)	(1.297)	(1.297)	(1.297)	(1.297)	(1.297)
<b>Sub-total MTFP Smoothing Reserves</b>	<b>(22.764)</b>	<b>(19.099)</b>	<b>(18.227)</b>	<b>(18.538)</b>	<b>(17.537)</b>	<b>(17.537)</b>



Capital Financing	(23.428)	(23.428)	(23.428)	(23.428)	(23.428)	(23.428)
Service Specific	(13.757)	(11.128)	(8.430)	(5.063)	(3.820)	(3.482)
Property	(0.925)	(0.436)	(0.346)	(0.256)	(0.256)	(0.256)
Grants & Other Contributions	(18.837)	(9.136)	(8.341)	(7.545)	(6.920)	(6.295)
Potential Risk Reserve drawdown 2023/24 outturn	0.00	25.819	25.819	25.819	25.819	25.819
<b>Sub-total GF Usable Reserves</b>	<b>(83.151)</b>	<b>(42.827)</b>	<b>(39.235)</b>	<b>(34.943)</b>	<b>(31.874)</b>	<b>(30.861)</b>
Insurance	(7.513)	(7.263)	(7.022)	(7.022)	(7.022)	(7.022)
General Fund Balance	(13.949)	(13.949)	(13.949)	(13.949)	(13.949)	(13.949)
<b>GF Earmarked Reserves</b>	<b>(104.613)</b>	<b>(64.039)</b>	<b>(60.206)</b>	<b>(55.914)</b>	<b>(52.845)</b>	<b>(51.832)</b>
Schools	1.336	1.336	1.336	1.336	1.336	1.336
<b>Total</b>	<b>(103.277)</b>	<b>(62.704)</b>	<b>(58.870)</b>	<b>(54.578)</b>	<b>(51.509)</b>	<b>(50.496)</b>

### **Council Priorities**

89. The priorities set out in the administration's manifesto include a number which are progressing within existing budgeted resources. Those priorities which incur additional financial commitments will be built into the medium term financial plan as plans are brought forward but only within the available approved budget.

### **Safeguarding Implications**

90. None arising from this report. Where there are service reductions across all services including Adult Social Care and Children's Social Care. Officers are working through these to ensure there is no impact on the Council's safeguarding duties for vulnerable adults and children in the Borough.

### **Public Health Implications**

91. The Council's core business is to maintain and enhance the wellbeing of the community; austerity and the financial climate is severely challenging its ability to do this. The MTFP outlines how the Council aims to meet its financial demands whilst minimising the effect of these pressures on the community. However, it is difficult to envisage how continuous cuts to the Council's budget will not impact upon its ability to support and maintain community wellbeing.

### **Equalities Impact of the Proposal**

92. Local authorities have a responsibility to meet the Public Sector Duty of the Equality Act 2010. The Act gives people the right not to be treated less favourably because of any of the protected characteristics. It is important to consider the needs of the diverse groups with protected characteristics when designing and delivering services or budgets so people can get fairer opportunities and equal access to services.

93. The Council aims to serve the whole borough fairly, tackle inequality and protect vulnerable people. The Council will promote equality of access and opportunity for those in our communities from the protected characteristic groups or those disadvantaged through socio-economic conditions.
94. The Council undertakes Equality Impact Assessment (EqIAs) to help make sure we do not discriminate against service users, residents and staff, and that we promote equality where possible.
95. An Equality Impact Assessment will be completed for individual budget/savings proposals. These assessments will evaluate how the proposal will impact on people of all protected characteristics and will identify alternative action or mitigating action where any adverse impact is identified. This will include consultation and engagement with affected people and organisations as appropriate.

### **Environmental and Climate Change Considerations**

96. There are no specific environment or climate change implications arising from this report at this time, these will be considered alongside savings and income proposals in future.

### **Risks that may arise if the proposed decision and related work is not taken**

97. The Council faces an enormous financial challenge and it is essential that the opportunity is taken to progress savings at the earliest possible time. Delaying the decision will impact on the delivery of those savings and also impact on work to further close the financial gap.

### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

98. The report has sought to identify as many of the financial risks facing the Council at this time and where possible to also quantify them. Identification is naturally one of the key steps in managing risk and this will be supplemented by regular review, there will be further reports to Cabinet in November 2023, January 2024 and February 2024.

### **Financial Implications**

99. As set out in the body of the report.

### **Legal Implications**

100. The Council has various legal and fiduciary duties in relation to the budget. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the setting of the overall budget and council tax. The Local Government Act 2003 entitles local authorities to borrow and invest as long as their capital spending plans are affordable, prudent and sustainable. The 2003 Act requires the Chief Finance Officer to report to Council as part of the budget process on the robustness of the estimates of borrowing, investment and spending and the adequacy of the proposed financial reserves taking into account the affordability, prudence, sustainability, value for money, stewardship of assets, service objectives and practicality requirements as provided by CIPFA's Prudential Code of Capital Finance in Local Authorities concerning borrowing and investment.

101. Members are obliged to take into account all relevant considerations and disregard all irrelevant considerations in seeking to ensure that the Council acts lawfully in adopting a budget and setting council tax. The Council must set and maintain a balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control. Members should note that where a service is provided pursuant to a statutory duty, the Council cannot fail to discharge its duty properly.
102. Members have a fiduciary duty to the Council Taxpayer for whom they effectively act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.
103. This report provides a clear and concise view of the position at present, of future sustainability and the decisions that need to be made for the recommended actions outlined herein with a view to meeting the Council's legal and fiduciary obligations.

### **Workforce Implications**

104. Any proposal that is likely to impact on posts or changes and potential closure of services, will require the Council to conduct a meaningful and timely consultation with trade unions and staff. This will include consideration of alternative proposals put forward as part of the consultation process. The Council's HR policies and procedures for restructures should be followed. Any consideration for staff structural changes should ensure there is a resilient workforce to deliver on-going service requirements. Therefore, consideration of workforce planning should be included in the process.
105. Where redundancies are necessary the appropriate HR policies and procedures should be followed. Redeployment options must be considered.
106. It is important that services engage with HR at the earliest opportunity.

### **Property Implications**

107. There are no new specific property implications that arise from the proposals to this report. As savings and income proposals are considered, property implications will be considered as appropriate.

### **Other Implications**

108. None

### **Options Considered**

109. None. The Council is statutorily required to set a balanced budget and this report is a step towards this.

### **Conclusions**

110. The 2024/25 budget gap of £39.4m (13.7% of net budget or 29% of net budget excluding children's and adult social care) is a challenging position but the Council is committed to remaining financially resilient. The budget gap is driven through the impact of the general economic environment on temporary accommodation costs, inflation, pay award driven by inflation for staffing and care contracts, demographic growth demand in social care adding pressure to an already stretched budget.
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111. Alongside these pressures, the lack of government funding to contribute towards these costs, following over a decade of making savings is exacerbating this challenging financial position.
112. The Council's financial resilience is of utmost importance in order to be able to deliver statutory services and to have the ability to focus resources on key priorities. It is clear that there is significant funding uncertainty, however, despite these challenges the Council is resolved to face these challenges head on in setting a balanced, prudent and transparent budget with the best known information. The principles of maintaining a resilient balance sheet and minimising use of reserves for the annual budget remain at the heart of the approach.

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Appendices:

Appendix A - Medium Term Financial Plan Summary 2023/24 – 2026/27

## Appendix A - Medium Term Financial Plan Summary 2023/24 – 2026/27

	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000
<b>Net Service Costs</b>	303,787	336,129	387,051	404,698
Growth - Previously approved by Full Council	0	14,930	13,829	13,360
Growth - New	32,698	21,252	(3,409)	1,814
Inflation - Previously approved by Full Council	0	8,294	7,133	7,210
Inflation - New	10,175	5,479	316	476
Savings - Previously approved by Full Council	(2,683)	(1,544)	323	0
Savings - Unachievable and Reprofiled	1,145	2,266	(545)	0
Savings - New	(8,993)	245	0	0
<b>Total Funding Requirement</b>	<b>336,129</b>	<b>387,051</b>	<b>404,698</b>	<b>427,558</b>
<b>Core Grants:</b>				
- Revenue Support Grant	(20,758)	(21,796)	(21,796)	(21,796)
- New Homes Bonus	(723)	(723)	(723)	(723)
- Services Grant	(3,000)	(3,000)	(3,000)	(3,000)
- Improved Better Care Fund	(11,726)	(11,726)	(11,726)	(11,726)
- Social Care Grant	(21,106)	(24,500)	(24,500)	(24,500)
- Housing Benefit Admin Grant	(1,402)	(1,402)	(1,302)	(1,202)
- ASC Discharge Fund	(1,644)	(2,740)	(2,740)	(2,740)
- ASC Market Sustainability & Improvement Fund	(3,041)	(4,567)	(4,567)	(4,567)
- Public Health Grant	(18,611)	(18,856)	(18,856)	(18,856)
- Homelessness Prevention Grant	(11,269)	(11,269)	(11,269)	(11,269)
- Rough Sleeping Initiative	(2,896)	(2,896)	(2,896)	(2,896)
<b>Core Grants</b>	<b>(96,176)</b>	<b>(103,475)</b>	<b>(103,375)</b>	<b>(103,275)</b>
<b>Business Rates</b>	<b>(90,809)</b>	<b>(97,454)</b>	<b>(95,454)</b>	<b>(95,454)</b>
<b>Council Tax:</b>				
- Council Tax - in year income	(146,963)	(146,204)	(146,204)	(146,204)
- Council Tax - Collection Fund deficit/(surplus)	(2,181)	(521)	(521)	(521)
<b>Council Tax</b>	<b>(149,144)</b>	<b>(146,725)</b>	<b>(146,725)</b>	<b>(146,725)</b>
<b>Total Funding</b>	<b>(336,129)</b>	<b>(347,654)</b>	<b>(345,554)</b>	<b>(345,454)</b>
<b>Budget Gap / (Surplus)</b>	<b>0</b>	<b>39,397</b>	<b>59,144</b>	<b>82,104</b>
<b>Contribution to Reserves / (Drawdown from Reserves)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Savings to be identified (Cumulative)</b>	<b>0</b>	<b>39,397</b>	<b>59,144</b>	<b>82,104</b>
<b>Savings to be identified (Incremental)</b>	<b>0</b>	<b>39,397</b>	<b>19,747</b>	<b>22,960</b>