Grant Thornton

Interim Auditor's Annual Report on London Borough of Enfield

2023/24

October 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary (continued)

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2023/24 is the fourth year that these arrangement have been in place. Your previous external auditor is yet to issue an Auditor's Annual Report for 2019/20 – 2022/23 inclusive, however we understand they are proposing an Adverse Conclusion in relation to the 2019/20 which is assessed in line with NAO's Auditor Guidance (AGN 03) November 2017. Therefore, we have had to produce our commentary without knowledge of the final outcome of the VfM work for prior audit periods. We will be mindful of any findings from your previous external auditor once they report and may need to revisit our findings as a result. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. The National Audit Office, in its consultation of February 2024, has indicated that it will in future require auditors to share a draft Auditors Annual Report (" the Report") with those charged with governance by a nationally set deadline each year and for the audited body to publish the Report thereafter. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. We are therefore sharing this report with you in advance of the National Audit Office's new Code being introduced. In the event that any new audit requirements are introduced when the Code is published, we will revisit these before finalising this report.

Criteria	Risk assessment	2023/24 Auditor judgement on arrangements	
Financial sustainability	Our initial planning identified a risk of significant weakness in respect of the Council's financial sustainability inconsideration of the challenges identified within its medium-term financial strategy.	R	Three significant weaknesses identified, and three key recommendations made. Additionally, eight improvement recommendations identified in this area as well.
Governance	No risks of significant weakness identified.	A	No significant weaknesses in arrangements identified, but four improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.

- (Green) No significant weaknesses in arrangements identified or improvement recommendation made.
- (Amber) No significant weaknesses in arrangements identified, but improvement recommendations made.
- (Red) Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

Your previous external auditor is yet to issue an Auditor's Annual Report 2020/21 to 2022/23 inclusive, therefore the Council has not had the opportunity to incorporate any findings for these periods. The Auditors Annual Report for 2023/24 therefore contains a more expansive commentary which includes recommendations that might have, in the normal course of events, been raised in prior years.

The local government sector is operating with a significant degree of financial uncertainty. The Council, like others in the sector, is faced with substantial financial challenges that has led to a deficit budget outturn for 2022/23 and 2023/24. The Council understands the financial challenges it faces and has taken several key steps to contain budget overspends, reduce the revenue impact of its capital programme, and made significant decisions in respect of controllable spend. The Council has also proactively engaged with the wider organisation to identify potential future savings to support significant budget gaps within its medium-term financial planning. However, the scale of the financial challenges the Council is facing creates a significant risk to the overall financial sustainability of the Council in the short term and due to the significance of this matter we have raised a key recommendation. See page 8 - 9 for more details.

The Council's Dedicated Schools Grant (DSG) deficit is £14.75m as of 31 March 2024, and is of a level which creates financial risk to the Council. Our work has also established inconsistencies in the Council's DSG deficit data and highlights opportunities for the Council to strengthen its oversight and internal controls in respect of its DSG position. Furthermore, the Council is currently reviewing its strategic arrangements in relation to a Council owned company which will require careful assessment and close monitoring as these arrangements are developed. These two areas present significant financial risk to the Council. Due to the significance of these matters, we have raised two key recommendations. See pages 6 – 7 and 10 - 11 for more details.

Additionally, we have raised eight improvement recommendations. See pages 41 to 48 for more details.

Governance

The Council had arrangements to support its control environment during the reporting period, evidenced by its risk management processes and through the activities of Internal Audit and the General Purposes Committee. We have found no significant weaknesses in the Council's governance arrangements. However, we have identified areas where the Council could improve arrangements and as such, have raised four improvement recommendations. See pages 53 to 56 for more details.

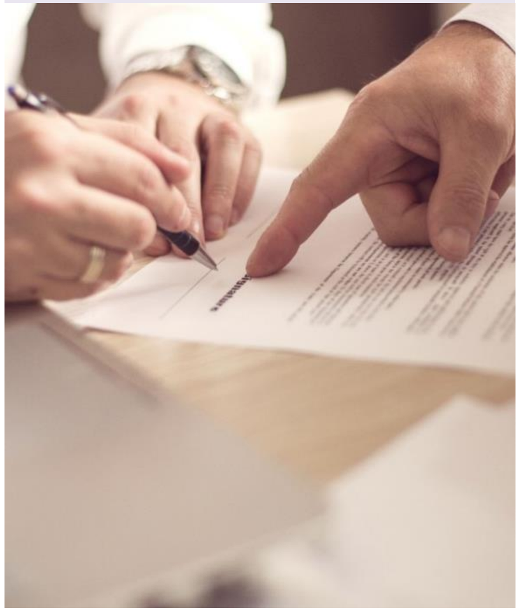
Improving economy, efficiency and effectiveness

During 2023/24 the Council refreshed and reviewed its corporate plan "Investing in Enfield. This covers the period from 2023 to 2026 and provides five priorities for the Council over this period. The Council operates an established performance framework, including the function of Council companies, supported by oversight and governance.

Our work has not identified evidence of significant weaknesses within the arrangements in place. However, we have identified areas where the Council could improve arrangements and as such, have raised three improvement recommendations. See pages 63 – 65 for more details.

Financial Statements opinion

We are yet to issue an audit opinion on the Council's financial statements for 2023/24. Our 2023/24 work is underway, and the Audit Plan was considered by General Purposes Committee on 26 June 2024.



Use of auditor's powers

We bring the following matters to your attention:

	2023/24
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	At the time of issuing this draft report, we have not made any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	At the time of issuing this draft report, we have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	At the time of issuing this draft report, we have not made an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	At the time of issuing this draft report, we have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	At the time of issuing this draft report, we have not made an application for judicial review.

Key Recommendations

Key Recommendation 1	We recommend the Council needs to place a significant focus on developing, modelling and implementing interventions which will support the management and reduction of the Dedicated Schools Grant (DSG) deficit (£14.75m as of 31 March 2024). Additionally, the Council should ensure that specific training is provided to Schools Forum members in matters relating to DSG deficit, progress in respect of managing DSG deficit interventions are regularly overseen by those charge with governance, and financial risks relating to the DSG deficit are added to the Council's Corporate Risk Register. We also recommend the Council ensures finance team capacity provided to the actual service in the development of DSG deficit management plans is sufficient and additional internal controls are established within the people service to ensure accurate data is provided to members and DfE.
Identified significant weakness in arrangements	The level of the Council's DSG deficit creates significant financial risk to the Council. Our work has also established inconsistencies in the Council's DSG deficit data and highlights opportunities for the Council to strengthen its oversight and internal controls in respect of DSG deficit matters.
Summary findings	The Council DSG deficit is substantial despite council intervention, additionally information included in reports provided to members of the Schools Forum and central government have not been consistent.
Criteria impacted by the significant weakness	Financial sustainability; Financial Governance
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.

The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key Recommendations (continued)

The range of recommendations that external auditors can make is explained in Appendix B.

Key Recommendation 1 (continued)

Management Comments

The recommendations are agreed.

A dedicated DSG board will be set up to meet on a quarterly basis to include senior education and finance staff to have oversight of the DSG with specific reference to the high needs budget. They will oversee the development of and implementation of the DSG management plan including the DBV plan. Representation will include the Directors of Finance and Education, the Head of SEND, the DBV programme manager and the Chair of Schools Forum. The DSG board will be accountable to EMT budget whilst also reporting to Schools Forum and as necessary the SEND Partnership Board.

Schools Forum training on DSG deficit will be undertaken. This training will also be presented to the Executive Management Team Budget meeting.

DSG deficit risk will be added to the Council's risk register formally in the next quarter. The Annual Governance Statement (AGS) references the "DSG deficit risk" under the Financial Resilience Section. Progress against the AGS action plan is scheduled to be considered at the Council's Assurance Board in November 2024.

The Head of Schools Finance interviews take place on week commencing 16 September. This is a specialist area, but we are anticipating an appointment with a start date by January 2025. The pace of progress will be able to accelerate once this role is filled.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key Recommendations (continued)

Key Recommendation 2	We recommend the Council places a significant and immediate focus on: • Developing mitigations to contain further emerging budget pressures. • Identifying further planned savings, and wider alternatives to the use of reserves, in the management of budget gaps identified within the Council's MTFS. These actions will support the Council to remain financially sustainable in the short term.
Identified significant weakness in arrangements	The Council has a significant budget gap (£85.99m) within the MTFS 2024/25 – 2028/29, with substantial savings required to be identified during 2024/25 (to be incorporated in the 2025/26 budget). The level of Council general fund reserves are of a level that offers limited contingency and have been further eroded by a worse than forecast revenue outturn for 2023/24. The Council is also being impacted by an emerging budget pressure that the Council became aware of in quarter 3 2023/24. These factors create significant financial risk to the Council.
Summary findings	The Council general fund was overspent by **£21.2 million** in 2022/23 and **£39.4 million** in 2023/24. These overspends have significantly reduced reserves levels. The Council's MTFS 2024/25 – 2028/29 identifies, a significant budget gap of **£85.99 million** for the period 2025/26 – 2028/29 which represents 27% of the 2024/25 net revenue budget. The Council is being significantly impacted from an emerging budget pressure (£6.8m) identified in quarter 3 2023/24 relating to housing benefit subsidy loss where there is an increasing material difference between the housing benefit subsidy level and the amount that can be reclaimed from the government for supported living accommodation.
Criteria impacted by the significant weakness	Financial sustainability
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.

The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key Recommendations (continued)

Key Recommendation 2 (continued)

Management Comments

The recommendations are agreed and already in progress as set out below:

September 2024 - £10.2m savings/income proposals were agreed at Cabinet for 25/26.

October 2024, second budget week to identify additional savings/income.

Already in place - specific action plans to reduce the Housing Benefit Subsidy Loss and Homelessness cost pressure. Other in-year overspends management action plans are being reviewed at Executive Management Team Budget meetings. Progress is monitored by the Executive Management Team for all of these actions.

The consultation for Councils to be able to utilise capital receipts to address financial pressures is awaiting an update following the change in government. The Council is expecting a closing balance of £23m uncommitted capital receipts at the end of 2024/25. A disposals programme update was presented to September 2024 Cabinet.

A Spend Control Panel for all purchase orders has been in place since April 2024. There are a number of panels across Children's Services in place to review high-cost placements.

The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key Recommendations (continued)

Key Recommendation 3	We recommend the Council comprehensively identifies, quantifies, and manages the financial and non-financial risks associated with its involvement in Energetik and these are assessed, along with proposed mitigations, in each stage of the Energetik project plan for strategic review to be agreed by the Council during 2024/25 onwards. We also recommend the Council satisfies itself that the planned governance and oversight arrangements in respect of the Energetik project plan for strategic review are sufficient considering the potential implications of decisions on the Council.
Identified significant weakness in arrangements	The Council has not clearly identified in the Energetik Operating Plan and Project Plan for Strategic Review Report the full range of financial and non-financial risks that could impact the Council if assumptions within the Energetik's revised operating plan are not accurate. The Council has not clearly identified, within the report, any risks identified by external advice provided to the Council as a shareholder, nor has the Council clearly identified how such risks could potentially impact the strategic review process. Worst, best and optimum scenarios were not included and there was no reference to sensitivity analysis of key assumptions in the report.
Summary findings	Energetik's, a wholly owned Council company, has been impacted by adverse economic conditions that has negatively affected financial assumptions within its original business case. The Council has reviewed the companies operating plan and intends to review its business plan and strategic future.
Criteria impacted by the significant weakness	Financial sustainability; Financial Governance
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.

The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Key Recommendations (continued)

Key Recommendation 3 (continued)

Management Comments

The recommendations are agreed.

The Council and Energetik have taken significant action to respond to the market conditions and economic circumstances for a complex infrastructure project that was started in a different economic climate. This work will continue with vigour during 2024/25, including an updated Business Plan to Cabinet which will address the points raised in the recommendation.

November 2024 – there is already a scheduled an update and review of our existing Company Risk Register planned for Assurance Board.

Regular cycle of bi-monthly meetings in place – the progress against the Project Plan is reviewed monthly by the Informal Shareholder Board (which includes Energetik and Council stakeholders).

December 2024 – a review of the governance arrangements for the strategic review of Energetik will be undertaken. There is a risk register for Energetik, an informal shareholder board, quarterly reports to Cabinet (which are also considered by the Executive Management Team), a project plan, regular shareholder dashboard updates, and a Shareholder Adviser is in place.

The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the General Purposes Committee to monitor progress of implementation to gain assurance over the arrangements in place.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term
(3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 12 to 65.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

The current LG landscape

National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation have put pressure on councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of council income that were needed to service the increase in demand, for example fees and charges and the collection rates for council tax, business rates and rents.

For Housing Revenue Accounts, inflation in recent years led to cost increases often outstripping rent rises. In the coming years, new legal duties on landlords are expected to increase costs further, without there necessarily being any additional funding to cover the new costs. At the same time, high construction prices are making it harder for councils to invest in the new accommodation which might have helped make savings in the revenue account, for example on temporary accommodation and homelessness. Housing Revenue Accounts are under further pressure due to regulatory challenges in housing quality in the light of national issues in respect of cladding and damp/mould issues.

In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Nine councils issuing eleven section 114 notices, effectively signalling bankruptcy, between 2019 and 2023, compared with two councils issuing notices between 2001 and 2018;
- An increasing number of other councils publicly warning of a section 114 risk;
- Nineteen councils being set to receive exceptional financial support for 2024/25, needing around £1.5 billion. Only six of the nineteen councils had previously issued a section 114 notice. There was no prior public anticipation of exceptional need for the other thirteen councils; and
- The Local Government Association warning that councils in England face a funding gap of £4 billion over the course of 2023/24 and 2024/25.

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. Since the start of 2024, the UK government has emphasised the need for increased productivity rather than increased funds. New plans were announced by the Chancellor in March 2024 for public sector productivity to deliver up to £1.8 billion worth of benefits by 2029. It seems likely that councils will be asked to develop and share productivity plans, showing how they will improve service performance and reduce wasteful spend. The approach to producing the plans is not yet agreed but the need for a new focus on performance in general is clear. The Institute for Government estimates that performance was worse on the eve of the pandemic than it had been ten years before for adult social care and children's social care and neighbourhood services. It estimates that performance has at best stayed the same but more often deteriorated even further since the pandemic.

Financial crisis and workforce crisis together place pressure on governance for the local government sector. Recent years have seen a rise in the instance of auditors issuing statutory recommendations around the need for improved governance, whilst at the same time an audit backlog has been growing since 2019. The government is now taking steps to end the backlog, consulting, for example, on backstop measures. Whilst prompter audit won't solve the financial crisis faced by the sector or enhance performance, it may help with delivering earlier warnings, allowing for swifter action and perhaps stronger mitigation. Although recruitment and retention is problematic in the current environment, there are new staff in post at many councils now, often valiantly working to resolve issues that had their origin in decisions taken years ago. With a renewed focus on training, technology and good governance, the outlook for the sector may still be positive despite the many challenges it faces.

The current LG landscape (continued)

Local context

The London Borough of Enfield (the Council) is one of 32 London Borough Councils, that together with the City of London make up the administrative area of Greater London. The London Borough Councils were all created on 1 April 1965 by the London Government Act 1963. More recently an additional tier of local government for London was created in 2000 called the Greater London Authority, comprising the Mayor of London and the London Assembly. The 32 London Borough Councils and the City of London provide the majority of services to residents whereas the Mayor of London sets an overall vision and strategic plan for London and is responsible for key functions including fire and emergency planning, policing and crime policy, economic development and transport.

The Council has developed over time from a number of historic towns and villages along historic trading and transport routes with Enfield Town, Palmers Green, Southgate, Angel Edmonton and Edmonton Green being developing into significant urban and economic areas. One third of the Council's area is designated Green Belt. The rural parts of the Council supports includes a number of important parks, woodlands and watercourses. Notable attractions include Enfield Chase, Capel Manor and the registered gardens of Trent Park, Forty Hall and Myddelton House. Parts of the Borough also form part of the Lee Valley Regional Park, a natural resource of national importance.

The Council is 12 miles from the centre of London, covers an area of 31.7 square miles, shares boundaries with three other London Boroughs: Waltham Forest to the east, Haringey to the south and Barnet to the west also the Borough adjoins the County of Hertfordshire to the north. The Borough is the 7th largest London borough by population. The Borough has seen population growth in recent years with the population increasing by 5.6%, from 312,000 in 2011 to 330,000 in 2021, within 131,000 households. However, the rate of growth was lower than the overall population of London (7.7%), and by a smaller percentage than the overall population of England (up 6.6% since the 2011 Census). The Borough population is ageing. Between the last two censuses, the median age of residents within the Borough increased from 34 to 37 years of age. The Borough had a higher average (median) age than London as a whole in 2021 (35 years) but a lower average (median) age than England (40 years). 54.2% of residents aged 16 years and over, were employed (excluding full-time students) in 2021, marginally down from 54.2% in 2011. During the same period, the regional percentage increased from 58.6% to 59.4%. The 2019 Indices of Multiple Deprivation identified that in the Borough, 17.1% of the population was income-deprived in 2019. Of the 316 local authorities in England Enfield is ranked 41st most income deprived.

The Council has 63 elected Members. Elections are held every four years. At the local elections in May 2022 Labour maintained its control of the Council. The current political balance of the Council following the May 2022 elections is Labour 37, Conservatives 25, and independent 1. The Council Plan 2023-2026, adopted by full Council on 14 June 2023, sets out the strategic priorities and focus of the administration and includes five main priorities:

- Clean and green places
- Strong, healthy and safe communities
- Thriving children and young people
- More and better homes
- An economy that works for everyone

The Council has identified six outcomes that they are seeking to positively impact by delivering on the above priorities being: residents live happy, healthy and safe lives, residents earn enough to support themselves and their families, children and young people do well at all levels of learning, residents age well, residents live in good quality homes they can afford, and residents live in a carbon neutral borough. The Council Plan 2023-2026 states performance against these outcome will be assessed quarterly by Cabinet. Matters relating to Council performance are covered in more detail within the economy, efficiency and effectiveness section of this report.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2022/23

General Fund

The Council's final General Fund Revenue Outturn Report for 2022/23 was considered by Cabinet on 13 September 2023. The report provided background and context to the challenging financial situation within which the Council was operating.

The financial challenges faced by the Council during 2022/23 included inflationary rises, increased costs of homelessness, ongoing growth in social care demand, post Covid-19 disruption to key income streams and wider impacts of the cost-of-living crisis. The Council's final general fund outturn was a net overspend of £21.2 million representing 8.2% of the net revenue budget for 2022/23.

The most significant budget variance was a £7 millon overspend in respect of temporary accommodation reflecting the Council's reliance on commercial hotels, to accommodate residents applying for homelessness assistance, due to a lack of supply lack of alternative private rented accommodation and the limitations to the level of housing costs that could be reclaimed through Housing Benefit. Matters relating to the Council's homelessness service is covered in more detail later in this section.

During 2022/23 pressures on the Council's social care budgets resulted in several overspends which included:

£2.8 million overspend Children and Families – contributory factors included a higher-than-expected rise in the number of external residential placements leading to increased costs which was further exacerbated by the Council having to respond to more complex support needs for those accessing the service. The Council's service for disabled children, reported higher than anticipated demand due to a significant increase in requests for rest bite services and higher than budgeted rises in commissioning and direct payment costs.

£1.8 million overspend Adult Social Care & Public Health – increased demand and complexity, impacted by the closure of a care home, led to overspends in the Council's learning disability services.

Additionally higher demand and associated complexity of care placements in respect of hospital discharges further impacted directorate budgets with overspends partially offset by one off in year funding from central government and one-off funding support from the integrated care board.

Digital services costs were overspent by £2.8 million due to Council's proactive activity to combat cyber security threats, increases to agency staff costs and wider digital service contract costs.

The General Fund Revenue Outturn Report for 2022/23 also reported a £1.6 million underachievement of parking income, reflecting suppressed market conditions resulting from the ongoing disruption, on this key Council income stream, emanating from the Covid-19 pandemic and subsequent changes in consumer habits. Waste services were overspent by £1m due to increase levels of household waste being presented by residents, leading to higher staff, vehicle and recycling centres costs with service overspends further compounded by rising vehicle fuel costs.

The General Fund Outturn Report for 2022/23 also reported several overspends relating to corporate budgets items, that related to a higher than anticipated employee pay award, increased cost of utilities, and higher than budgeted financing costs all of which resulted in a combined corporate budget overspend of £1.6 million.

The overall budget deficit of £21.2 million for 2022/23 was funded from a general fund earmarked with the General Fund Outturn Report 2022/23 outlining how the Council's overall reserves had reduced significantly during the financial years 2021/22 and 2022/23. The Council's total reserves and balances (excluding Housing Revenue Account and School's reserve) were £101.8 million as of 31 March 2023 and should the Council continue to overspend at the level seen in 2022/23 all reserves would be exhausted within five years. The Council's general fund reserves, unallocated and earmarked, are examined in more detail later within this report.

Financial sustainability (continued)

Outturn 2022/23 – HRA (continued)

Housing Revenue Account (HRA)

The Council's HRA Final Outturn Report for 2022/23 was also considered by Cabinet on 13 September 2023. This report detailed that the revenue outturn for the HRA was an underspend of £0.7 million against the original budget.

The HRA Final Outturn for 2022/23 represented a significant improvement in comparison to the previous HRA revenue forecast for 2022/23 (as of November 2022), presented to Cabinet on 8 February 2023, which forecast a HRA revenue overspend of £2m.

The improved HRA revenue outturn was supported by the release, during 2022/23, of a long-term provision held by the Council of £2.9m. This amount was held by the Council to mitigate against potential legal claims in relation to historical water and sewage charges. The Council explained the potential liability for such claims had ended in 2022/23 allowing for the release of this one-off provision to support the HRA 2022/23 budget. If this provision had not been released the HRA would have overspent by £2.2 million.

Significant budget variances included an overspend of supervision and management costs of £2.1 million relating to additional costs associated with decanting three high rise housing blocks for essential gas works, improvements to the wider HRA estate and higher than anticipated energy costs due to sharp rises in year rises in energy market prices.

Reactive repairs was overspent by £0.7 million due to higher than budgeted inflation rises in relation to materials and contractor costs and due to additional repairs work relating to the Council's response to matters of damp and mould issues.

The HRA Final Outturn Report 2022/23 also detailed a £0.6 million underachievement rent income due to delays in the completion of new Council housing and in part due to the impact of the vacant high rise housing blocks referenced earlier in this report.

Rising interest rates has led to £0.6 million in additional investment income derived from HRA balances and reserves. The HRA bad debt provision was lower than budgeted, with arrears levels stabilising, resulting in £0.4 million of additional revenue income. The HRA Final Outturn Report 2022/23 explain that budgeted HRA savings of £1m for 2022/23 had in fact been exceed by £0.2m in part due to reduced levels of recharges and higher than budgeted building hire income. The overall HRA underspend for 2022/23 further supported the Council's HRA reserves levels. HRA reserves are examined in more detail later in this section.

Budget 2023/24

General Fund

On 23 February 2023, Full Council considered the 2023/24 Budget Report which recommended a balanced net revenue budget of £286.9 million for 2023/24, a 10.44% increase from the prior year. The 2023/24 Budget Report described in detail the financial uncertainty being faced by the Council, and the wider sector, due to generationally significant inflation rises, post pandemic disruption to Council services and income streams, the short-term nature of local government settlements and the further postponement of local government finance reform by the government. The Council's in-depth assessment of the challenging financial environment, within which the 2023/24 budget had been formed, provided informative context, background and analysis which represents good practice.

The 2023/24 Budget Report clearly set out the local government finance settlement for 2023/24 which was confirmed on 6 February 2023. The settlement distributes a range of grants and business rate income allocations to local authorities including the Settlement Funding Assessment (SFA) which is comprised of locally retained business and a Revenue Support Grant. The 2023/24 Budget Report explained that for 2023/24 the Council's SFA was £110.1 million, and overall increase of £12.7 million from the prior year, however the report stated that despite the increases seen in SFA from 2020/21 to 2023/24 there has been an overall decline in the level of SFA (or equivalent funding regime) since 2010/11.

Financial sustainability (continued)

Budget 2023/24 (continued)

The report also detailed that the Council would receive a social care grant of £21.1 million, representing growth of £8.4 million when compared to the prior year, with additional social care grant funding of £4.6 million for 2023/24 from the adult social care market sustainability and improvement fund and adult social care discharge fund. The Council would also receive an improved better care fund grant of £11.7 million intended to support adult social care spending, reduce pressures on the NHS, facilitate higher rates of hospital discharge and ensuring that the social care provider market is supported. The budget report also set out that the Council estimated it would receive in 2023/24 a £18.3 million public health grant to support the improvement of residents' health and to support the reduction of health inequalities within the borough, a homelessness prevention grant and rough sleeping initiative funding of £10 million, supporting families grant of £1.9 million to assist local families with significant and complex need and a housing benefit administration grant of £1.4 million. Additionally, the report explained the Council would receive a services grant of £3 million and a new homes bonus of £0.7 million, with the report explaining future payments of these specific grants remained uncertain.

The report set out the council tax base which included modest growth assumptions reflecting underlying economic uncertainty. For the financial year 2023/24 the government introduced additional flexibility for Councils in setting council tax levels and the report recommended an annual council tax increase of 4.99% for a band D property comprising of a 2.99% core increase and a 2% adult social care precept to help fund adult social care demand pressures. The increase of 4.99%, combined with the tax base growth, would result in £7.5 million of additional council tax income in comparison to the previous year.

The Council's 2023/24 budget itemised budgetary growth items totalling £46 million. The report noted the significant impact of rising inflation on the Council financial planning with inflationary pressures alone representing £23.3 million of the total growth for 2023/24, three times higher than prior year assumptions. Service and demographic pressures in children's social care, special educational needs, transport and adult social care were other significant contributors to growth pressures, representative of sector wide issues, in relation to these demand led service areas. Capital financing costs increased by £5 million in 2023/24, with the report explaining this growth was reflective of significant rises in interest rate and incorporated the latest interest rate forecasts. Fully itemised savings and income proposals of £14.2 million in 2023/24 that would help mitigate the 2023/24 budget pressures were also clearly set out. The Council's savings strategy is covered in more detail later within this section.

The report also set out the use of £10.9 million of reserves to support the 2023/24 budget, whilst increasing the general fund working balance by £0.5 million to £14.5 million as of 31 March 2024.

Dedicated Schools Grant (DSG) and the Schools Budget for 2023/24 was also set out within the 2023/24 Budget Report. The DSG allocation for 2023/24 was £401.1 million, an increase of 2.88% from the prior year. The report explained the Council was currently managing significant budgetary risk in relation to the DSG mainly due to increases in cost resulting from rises in the number of children with special educational need as these pupils where often placed in expensive, specialist independent educational provision that could lead to unfunded increased costs to the school's budget further impacting the DSG cumulative deficit of £15.24 million.

The report included reference to a widely promoted public budget consultation conducted during the period 28 October 2022 to 29 December 2022, and a summary of consultation responses was included within the suite of 2023/24 budget papers. The Council's budget consultation process and publication of outcomes demonstrates the Council willingness to engage the public in the budget setting process and supports transparency which is good practice.

Financial sustainability (continued)

Budget 2023/24 (continued)

HRA

On 23 February 2023 Full Council also considered the HRA Budget 2023/24, Rent Setting and Business Plan Update Report.

The HRA's main source of revenue income is from rent charged to tenants, the levels to which rents can be increased is set by regulatory policy.

The government's Autumn Statement 2022 confirmed a 7% rent ceiling from 1 April 2023 to 31 March 2024 which would act as an upper limit on the maximum amount by which registered providers of social housing could increase social rents in that year. The 2023/24 HRA Budget Report recommended social rent charges should be increased by 7% in line with Government guidelines.

Proposed tenants' service charges for 2023/24 were also clearly set out, supported by prior year comparative data, explanations of new or enhanced charges including the impacts of rapidly fluctuating utility costs, due to market volatility, on communal heating charges.

The Council is also a freeholder of 4,900 homes that were previously sold to tenants under the right-to-buy legislation and proposed leaseholder service charges for 2023/24 were individually itemised and the report included rationale of the proposed changes.

The Council's detailed explanation of proposed changes to rent and services charges supports transparency and is good practice.

The 2023/24 HRA Budget Report set out the HRA revenue budget which forecast HRA revenue income to be £73 million, principally comprising of rents and service charges. Forecast HRA revenue expenditure for 2023/24 was also £73 million and included £22.6 million supervision and management charges, which included an assumed 5% pay award, responsive repairs and maintenance expenditure of £15.1 million, up from £13.7 million in 2022/23, reflecting the impacts of rising inflation on the costs of materials and services and financing costs for 2023/24 were £15.8 million, up from £10.9 million in 2022/23, reflecting an increased level of borrowing to fund the HRA capital programme, intended to support investment in existing Council homes and the provision of properties.

The 2023/24 HRA Budget Report also explained that the HRA revenue budget forecast a net operating surplus of £6.8 million which would be available to support the HRA working balances and reserves. HRA reserves are examined in more detail later in this section.

2023/24 Revenue Forecast Update

General Fund

On 21 February 2024 Cabinet considered the 2023/24 Revenue Forecast Report which provided the latest general fund revenue forecast for 2023/24, as of the 30 November 2023, which was an overspend of £29.9 million equal to 10.4% of the original 2023/24 net revenue budget. Significant forecast overspends are detailed in the following paragraphs:

Temporary Accommodation - The 2023/24 Revenue Forecast Report explained that the most significant overspend related to temporary accommodation costs of £17.3 million (58% of the total budget variance) and as already identified in this report this forecast overspend followed a final overspend of £7 million for the prior year.

The report explained that the forecast overspend was being predominately driven by the cost-of-living crisis, a lack of availability of affordable temporary accommodation leading to Council's reliance on housing residents at risk of homelessness in expensive hotel accommodation. The report explained that the Council has taken action to mitigate further temporary accommodation overspends and a task force had been set up to work to find ways in which to bring down the variance.

As part of our work, we have also established that on 7 June 2023 Cabinet considered a report on homelessness in Enfield. The report summarised the national and local pressures impacting temporary accommodation including rising private sector rent levels, inadequacy of the Housing Benefit Local Housing Allowance (LHA) rates and shortages in local affordable accommodation. The report also explained that the supply of temporary accommodation had also fallen, due to landlords leaving the market, in part due to the limitations of LHA rates, and the number of households being accommodated in hotels has risen to over 200 and the cost of the provision to the Council was £850,000 per month which was unsustainable.

In consideration of these factors the report included recommendations for a new homelessness service model and associated policy changes including the placement of some service users at risk of homelessness out of borough and in parts of the country where the LHA would cover all or most of the rent with a stated aim to end the use of hotel accommodation by the end of September 2023 and to deliver sustained reductions in the use of temporary accommodation thereafter.

Financial sustainability (continued)

2023/24 Revenue Forecast Update (continued)

The Council acted during 2023/24, to mitigate adverse budget forecasts by introducing homelessness policy changes and through the formation of an internal task force to provide an additional focus to managing budget variances. Additionally, from April 2024 uplifts to LHA rates were introduced following announcements made in the government's Autumn Statement 2023 which may help to alleviate some affordability pressures within the system. We also note the activities of the Council's trading company Housing Gateway Limited (HGL) in the supply of affordable housing and temporary accommodation to help mitigate temporary accommodation costs incurred within the general fund. Matters relating to HGL are covered in more detail later in this report.

However, despite this range of activity, the Council is being significantly impacted by budgetary overspends within temporary accommodation during 2023/24 and these variances present risk to the Council's overall financial sustainability. It is vital the efficacy of Council activity to reduce adverse temporary accommodation budget variance are closely monitored, reported and assessed by those charged with governance, in additional to the current financial monitoring reports, and this leads to an improvement recommendation. We recommend the Council provides an update report to Cabinet, during 2024/25, in respect of temporary accommodation service and the progress of Council activities to mitigate temporary accommodation budget variances. The report should also include updates in respect of:

- The impact and appraisal of the Council's placement policy and new service model, introduced during 2023/24.
- The activities and impact of the temporary accommodation task force and HGL in mitigating temporary accommodation expenditure.
- Progress in respect of the Council's stated aim to end the use of hotel accommodation.

Please refer to improvement recommendation 1 on page 41.

Children's Services - The 2023/24 Revenue Forecast Report stated that children services were forecast be overspent by £4.1 million driven by higher than budgeted costs in particularly in the area of looked after children with external care purchasing projected to be overspent by £3.6 million due to a higher than anticipated increase in demand including several large sibling groups requiring care placements. The report outlined a number of activities being undertaken by the Council to manage overspends in Children's Services but explained that the adverse variance of £4.1 million assumed the Council would be able to manage this specific and contain any further in year growth.

Pay Award - The 2023/24 budget estimated a 4% pay award (£7.3 million), however the 2023/24 Revenue Forecast Report explained the final agreed pay award was £3.7 million higher than the original assumption made by the Council when the budget was sent and reflecting the ongoing and significant impact of rising pay inflation on the Council and others within the sector.

The 2023/24 Revenue Forecast Report also explained other significant overspend areas including the property directorate (£1.9 million), mainly due to an increased level of reactive property maintenance works in respect of Council owned buildings with the report noting that the service was actively working on 'deep dive' initiatives to mitigate further overspends. Parking services also forecast an underachievement £1 million of income due to a fall in enforcement and parking tariff income. We have been informed by the Council that a planned area of Council activity for 2024/25 will be assessing this area of service delivery to maximise income and service efficiency.

The Council's 2023/24 Revenue Forecast Report also explained that a further £3.7 million of potential net overspend was being flagged as risk but not included in the reported variance, and if these risk items materialised then the forecast overspend would deteriorate further to £33.6 million. Any overspend would be required to be funded from Council general fund reserves with the report noting that general fund reserves are sufficient to cover the 2023/24 forecast pressure but would the level of reserves would not be sufficient if pressures cannot be contained and mitigated.

Draft Statement of Accounts 2023/24

On 31 May 2024, the Council published its draft statement of accounts for 2023/24. This included the Council's final outturn for 2023/24, however at the time of this report the final outturn was yet to be considered by Cabinet. The draft statement of accounts for 2023/24 identified the general fund final outturn was an overspend of £39.4 million which represented a steep rise in the adverse variance following the Quarter 3 Forecast. We understand from the Council that the worse than predicted overspend was in part due to a £6.8m overspend relating to a rise in the number of Housing Benefit claims for supported accommodation where the full costs cannot be reclaimed from central government and the Council was actively responding to the issue. The 2023/24 general fund adverse variance will be required to be funded from Council reserves and the worsening position will further impact the Council's general fund reserves impacting the Council's financial sustainability and these factors are included in a wider key recommendation later in this report.

Financial sustainability (continued)

2023/24 Revenue Forecast Update (continued)

HRA

On 17 January 2024 Cabinet considered the HRA Forecast Report which provided the latest general HRA forecast for 2023/24, as of the 30 November 2023, which was an overspend of £2.2 million. The forecast being adversely affect by an overspend of £2.9 million on responsive repairs caused by steep inflationary rises on materials and contractor costs, a rise in emergency repairs and works relating to matters of housing compliance.

Energy, wage and contract inflation led to an overall forecast overspend of £0.9 million with the report explaining the repairs budget remained under close supervision and management in order to control expenditure and mitigate overspends. The HRA Forecast Report also explained that rapidly rising interest rates had resulted in £1.2 million of additional investment income derived from HRA balances and reserves.

The HRA Forecast Report provided an informative summary of how inflationary pressures, matters of housing compliance and rising interest rates had impacted the original set budget and the report outlined actions being taken the Council to mitigate further variances which represents good practice.

Budget 2024/25

General Fund

On 22 February 2024, Full Council considered the 2024/25 Budget Report which recommended a balanced net revenue budget of £318.5 million for 2024/25, a 11.01% increase from the prior year.

The budget report explained the 2024/25 budget had been set within an extremely challenging financial environment with announcements in the governments Autumn Statement 2023, and the local government finance settlement 2024/25 being viewed by the Council, as offering limited support to reduce immediate and ongoing financial pressures and the increases in government grant funding, and was insufficient to meet all of the Council's cost pressures of £48.6 million for 2024/25, principally resulting from increased social care demand, high temporary accommodation costs and the ongoing impacts of inflation increases on services, pay and contracts.

For 2024/25 the Council's SFA was £120.6 million, (increase of £10.5 million from the prior year). The Council also received a total social grant of £27.8 million, (an increase of £6.7 million from the prior year). However, the report explained this additional funding was partially offset by associated government reductions on the Council's services grant which was £0.5m for 2024/25 (a reduction of £2.5m from the prior year).

The budget report set out that the Council would also receive a further £8.4 million in adult social care funding for 2024/25 from the adult social care market sustainability and improvement fund (now incorporating the workforce fund grant) and adult social care discharge fund.

The budget Report explained that the Council would receive an improved better care fund grant of £11.7 million for 2024/25, which was maintained at prior year levels, a ring fenced public health grant of £19 million for 2024/25 which represented an increase of £0.4 million on the finalised health grant level for the prior year and a homelessness prevention and rough sleeping initiative funding of £12 million with the report noting this level is unlikely to be sufficient to match the growing homelessness pressures faced by the Council.

The 2024/25 Budget Report provided an extensive breakdown, explanation and impact of the key components of the local government finance settlement for 2024/25 which supports transparency and demonstrates good practice.

The report set out the net Council tax base for 2024/25 which increased to an estimated 102,954 Band D equivalents (based on a collection rate of 94.6%) representing a rise of 6,160 from the prior year. This significant increase in the tax base resulted primarily to reduction in the level of entitlement afforded within the Council Tax Support Scheme (CTS) for 2024/25.

CTS supports residents on a low income to meet their council tax liabilities and is awarded as a reduction on a council taxpayers bill. Alongside the 2024/25 Budget Report, full Council considered and subsequently adopted proposals to reduce scheme entitlement with the Council explaining the recommended reductions in entitlement were being proposed in the context of the acute financial challenges being faced by the Council, in consideration that the CTS scheme is the Council's largest area of discretionary spend, and benchmarking demonstrated that the Council's costs were the highest in London (£40.7 million per annum).

Financial sustainability (continued)

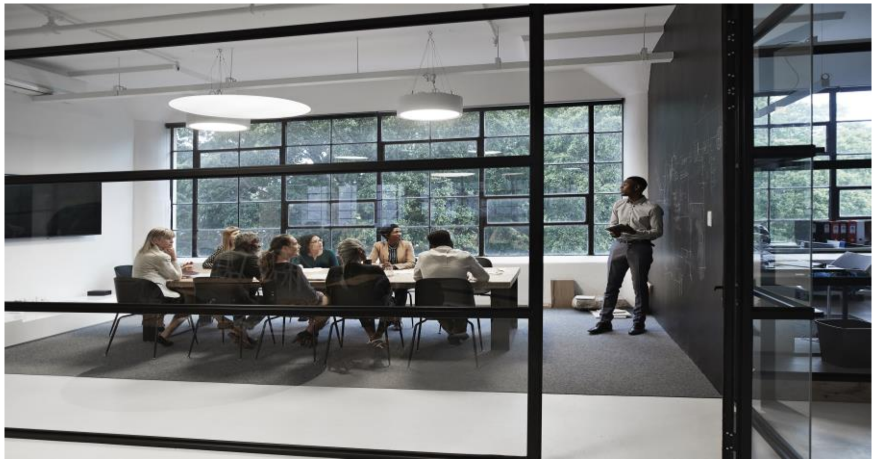
Budget 2024/25 (continued)

Changes to the CTS scheme for 2024/25 included:

- restricting council tax support to a maximum Band C council tax liability.
- introducing a minimum non-dependant deduction for most households with other adults living in the property and increasing the current deductions by 20%.
- standardising the minimum payment for most working age claimants at 50% (excluding war widows and single people under 25 including care leavers) .

The changes outlined above deliver £14.3 million in costs savings for 2024/25, shared with precepting authorities, with the Council's net saving being £5.8m, for 2024/25, after the assumed collection rate and bad debt impacts of £3.7m, and an additional £1.5m to enhance the Councils hardship fund and welfare support offer intended to help mitigate impacts to those most affected by the changes.

The Council's assessment of this area of discretionary spending demonstrates the Council is proactively addressing the financial challenges it faces, whilst many in the sector are choosing to keep levels of CTS entitlement unchanged.



The Council has stated that the impact of the CTS scheme changes on council tax collection rates will be routinely monitored throughout 2024/25, and we understand an internal Council working group will continue to assess the impact of the changes during 2024/25.

Additionally, the Council has assumed the scale of the changes would adversely impact council tax collection rates and the Council has increased its bad debt provision and assumed a reduced council tax collection rate within its financial planning for 2024/25.

However, the reductions in scheme entitlement will impact 29,100 residents who will be required to pay a higher contribution towards their council tax costs and could create in some instances a tipping point of affordability, which in turn could impact the level of council tax income received by the Council, over and above assumptions made and despite the additional support put in place, which could create financial risk to the Council. These factors lead to an improvement recommendation. We recommend the impact of the CTS scheme changes, introduced for 1 April 2024, should be to be subject to enhanced budget monitoring, and assessed by those charged with governance, regularly during 2024/25. This will ensure the financial and wider impacts of scheme changes are assessed frequently and supported by appropriate oversight.

Please refer to improvement recommendation 2 on page 42.

The 2023/24 Budget Report recommended an annual council tax increase of 4.99% for a band D property comprising of a 2.99% core increase and a 2% adult social care precept to help fund adult social care demand pressures. Although the budget report explained the 2% adult social care precept proposed for 2024/25 will generate £2.9m in additional council tax, however, the inflationary and demographic pressures in adult social care for 2024/25 total £9.7m further demonstrating the financial pressures being managed by the Council in respect of social care services. The increase of 4.99%, combined with the tax base growth, would result in a total £7.3 million of additional council tax income in comparison to the previous year.

The 2024/25 Budget Report itemised budgetary growth items totalling £48.6 million that had been built into the 2024/25 budget and included £17.2 million of inflation growth, in respect of services, selected contracts, utilities and pay. These inflationary pressures remained the highest aggregated growth item but was lower that the level of inflation growth in the prior year (£23.3 million) indicative of falling inflation.

Financial sustainability (continued)

Budget 2024/25 (continued)

Rising demand within social care and special educational need transport resulted in £11.4 million of budget growth for 2024/25, despite proactive action taken by the Council to limit rising expenditure through cost control panels in children's services and demand management activities in adult social care.

The 2024/25 Budget Report explained that the single most significant pressure and risk was the cost of temporary accommodation with £7.7 million of growth included within the 2024/25 budget. The budget report explained that recent increases in government funding this had not been sufficient to meet rising costs and in consideration of the ongoing financial risk around the cost of temporary accommodation the Council had also formed a specific homelessness earmarked reserve of £10 million for 2024/25, to mitigate any further pressures, created from transfers from within existing reserves. Matters relating to temporary accommodation costs and oversight of Council activity to controls this area of expenditure has already been referenced within an improvement recommendation within this report.

The Council's capital financing costs increased by £2.4 million in 2024/25 which was lower than the £6.4 million originally estimated in earlier iterations of the draft 2024/25 budget. This lower level of growth resulted from the Council's proactive review of its capital programme to mitigate the revenue cost of capital financing. The estimated charge for capital financing being £31.4 million in 2024/25 within was the Council's agreed affordability measure of annual capital financing costs being within 10%-12% of total net revenue budget. The Council's capital programme is covered in more detail later within this report. Other significant growth items in 2024/25 included £2.3 million increase in the levy payable to North London Waste Authority reflecting additional costs to the North London Heat and Power Project and £2.4 million one off cost relating to a technical capitalisation accounting adjustment.

As in the prior year the Council's 2024/25 Budget Report included reference to a widely promoted public budget consultation conducted during the period 11 December 2023 to 12 January 2024 and a summary of consultation responses was included within the suite of budget papers.

The report clearly articulated the significant financial risks being managed by Council and how the Councils financial resilience was being eroded by the impact of rising homelessness levels and reducing reserve levels. The adequacy of Council reserves is covered in more detail later on in this report.

HRA

On 22 February 2024 full Council also considered the HRA Budget and Rent Setting Report 2024/25. The Council increased social rent charges by the governments maximum permitted amount being 7.7%. Proposed tenants service charges were set out and clearly explained, with the level of service charges for 2024/25 for those tenants and leaseholders increasing by an average of 11%.

The 2024/25 HRA Budget Report set out the HRA revenue budget which forecast HRA revenue income to be £81.1 million, with the main element being rents and services charge income of £71.8 million, an increase of £7.5 million from the prior year. Commercial rents, leaseholder charges and investment income totalled £9.3 million for 2024/25, an increase of £0.8 million from the prior year, reflecting the impact of interest rate and inflation rises on these income streams.

Forecast HRA revenue expenditure for 2023/24 was also £81.1 million and included £26.3 million supervision and management charges, which included an assumed 3.5% pay award, responsive repairs and maintenance expenditure of £17.5 million, up from £15.1 million in the prior year, reflecting inflationary increases and additional costs incurred in respect of regulatory compliance works. HRA financing costs for 2024/25 where forecast to be £15.5 million, which was £0.3 million less than the prior year, due to marginally lower borrowing levels in 2024/25. The 2024/25 also included a £15 million contribution to HRA reserves. The Council's HRA borrowing commitment for 2024/25, and contribution to reserves, was significant, reflecting the Council's ambitious 10 year £900 million capital programme aimed to invest in existing Council stock and also to deliver 3,500 new Council homes.

Dedicated Schools Grant (DSG)

The DSG is a budget allocated in four blocks, including schools, early years, high needs, and central school services. However, the Council has been spending more than the funding provided and has been in a deficit position, that is increasing year on year, attributable to the High Needs Block (HNB), which is a type of funding to support children and young people with special educational needs (SEN). The Council's 2024/25 Budget Report stated that even though that there had been year on year reductions in the overall school population, the number of high needs learners continues to rise and that there was a continuing risk that this may lead to further unfunded costs to the school's budget, as the current government funding arrangements does not fully cover the costs of the additional places needed for children with SEN.

Financial sustainability (continued)

Dedicated Schools Grant (DSG)

The 2024/25 Budget Report set out the DSG and the Schools Budget for 2024/25. The DSG allocation for 2024/25 being £431.8 million an overall increase of 7.65% from the prior year. The 2024/25 budget report included an appendix which summarised service risks which included budgetary risks relating to DSG funding specifically relating to rising number of children with special education need (SEN) which could lead to unfunded costs to the schools' budget further impacting existing DSG cumulative deficits. The budget report carried inconsistencies in relation to the actual amount of the Council's cumulative DSG deficit, however, the Council has clarified the DSG deficit data for the period 2019/20 to 2023/24. The Council's DSG cumulative deficit is identified in Figure 1 below:

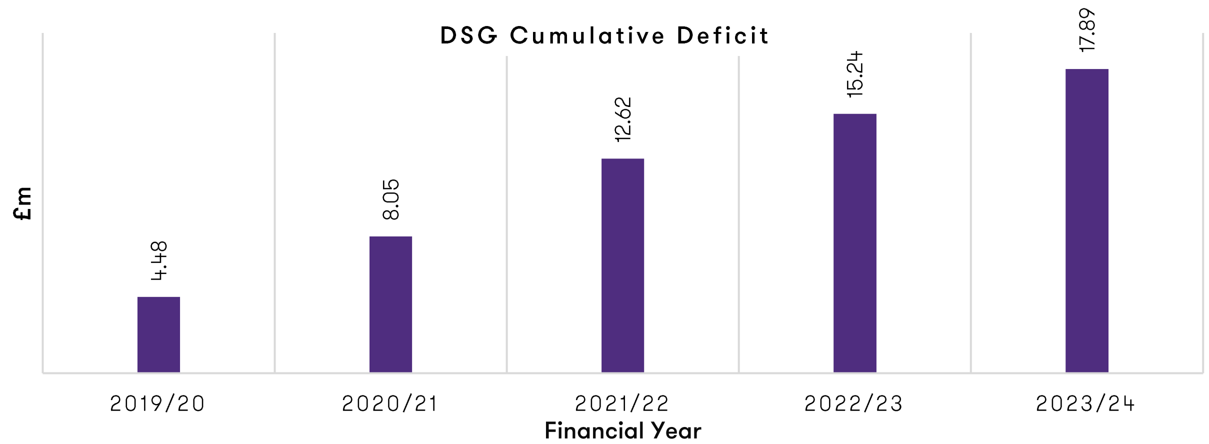


Figure 1 DSG cumulative deficit identifies that the Council DSG was forecast to increase to £17.89 million by 31 March 2024 (as stated in the Quarter 3 2023/24 Revenue Forecast update presented to Cabinet on 7 February 2024). A statutory override has been allowed by the government which currently allows the Council, like others in the sector, to treat the deficit as a negative reserve however this mechanism is temporary and due to end in March 2026. We understand from the Council that during 2020/21 steps were taken by the Council, including the commissioning of external advice, to identify interventions that could support more sustainable spending with the HNB, despite this the DSG deficit had continued to increase. We have been informed by the Council that Enfield has the highest ratio of EHCPs, per 1000 population (52.8), then elsewhere in England (42.5) , with London averaging 42.5 EHCP's per 1000 population and work is scheduled to understand the reasons for such prevalence.

Dedicated Schools Grant Deficits

On 12th December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Financial sustainability (continued)

Dedicated Schools Grant (DSG) (continued)

All Council's with DSG deficits are required to present a deficit management plan to the Department for Education (DfE) for managing their future DSG spend. The Council has submitted a DSG deficit management plan to the DfE on 2 January 2024 and an update was provided to the Schools Forum on 17 January 2024. We have identified significant inconsistencies in DSG deficit data when comparing the Council's draft statement of accounts 2019/20 – 2022/23 and the 2024/25 Budget Report to information provided to the DfE on 2 January 2024 and the School's forum on 17 January 2024, with divergence noted in DSG deficit trajectory data. For example, DSG deficit data provided to DfE on 2 January 2024 forecast a DSG defect of £67 million by 2029/30 whereas DSG deficit data provided to Schools Forum on 17 January 2024 forecast a DSG surplus of £87 million by 2029/30.

We also note that Cabinet considered the Quarter three 2023/24 Revenue Forecast update Report on 7 February which forecast the DSG deficit to be £17.89m as of 31 March 2024. However, the Council have since published its draft (unaudited) statement of accounts for 2023/24 on 31 May 2024, within which the DSG deficit is stated to be £14.75 million, a reduction of £3.14 million form the quarter three forecast. Although this is a better-than-expected outcome the level of variance from quarter three to quarter four 2023/24 does further highlight issues the Council is encountering which is preventing accurate forecasting of DSG expenditure.

We have been informed by the Council these inconsistencies have arisen both from recruitment challenges within the finance team leading to inconsistent support to the education service and due to inputting errors by the education service. We have established that the finance team responsible for supporting the people service area (Adult's Social Care, Public Health, Children's Social Care, Education and Schools) has been impacted by vacancies, absence, and workload backlogs during 2023/24. The Council has informed us that they have been proactively managing the issues, and from November 2023, seconded resource within this specific area of the finance team, are actively recruiting to new posts and working to improve team processes and functions. These matters are included within a wider key recommendation later in this report.

In consideration of the level of the Council's DSG deficit, the DfE has invited the Council to be part of the Delivering Better Value in SEND programme (DBV) to support Council's improve delivery of services for children with SEND while ensuring services are financially sustainable. On 11 April 2024, the Finance and Scrutiny Performance Panel considered a report in respect of SEND framework and funding which included an updated on the Council's participation in the DBV programme.

The report stated the Council had been working with DfE as part of the DBV programme since 2022/23 and as part of this work the DfE had provided additional funding of £1m over the financial years 2023/24 and 2024/25, to support a series of Council workstreams intended to support transformation of SEN provision and to reduce the level of deficit on the HNB however these workstreams had been delayed as the Council was seeking to recruit additional posts to carry forward and implement the workstreams associated with the DBV programme, although we now understand from the Council this resource has been recently secured.

The Council has taken steps to assess reasons for overspending and understand HNB demand however the level of DSG deficit creates financial risk to the Council especially in consideration of the overall low levels of general fund reserves held by the Council. Should the governments statutory override be removed, the Council would need to use reserve balances to meet the shortfall, which creates significant financial risk to the Council. The Council has not forecast this potential call on reserves from 1 April 2026 in its medium-term financial plan.

Additionally, inconsistencies in DSG deficit financial data, driven by finance team resourcing issues and lack of internal controls within the people service area together with the delay in implementing DBV interventions to reduce DSG deficit levels indicates a lack of an effective approach in managing the Council's DSG deficit.

These factors have been identified as a significant weakness and leads to a key recommendation. We recommend the Council needs to place a significant focus on developing, modelling and implementing interventions which will support the management and reduction of the Dedicated Schools Grant (DSG) deficit.

Additionally, the Council should ensure that specific training is provided to school's forum members in matters relating to DSG deficit, progress in respect of managing DSG deficit interventions are regularly overseen by those charge with governance, and financial risks relating to the DSG deficit are added to the Council corporate risk register.

We also recommend the Council ensures finance team capacity provided to the people service in the development of DSG deficit management plans is sufficient and additional internal controls are established within the people service to ensure accurate data is provided to members and DfE.

Please refer to key recommendation 1 on pages 6 - 7.

Financial sustainability (continued)

Capital Programme - General Fund and HRA

During 2023/24 the Council has taken steps to fundamentally review and assess the affordability of its capital programme in consideration of challenging economic factors, to reduce financial risk and to support the overall financial sustainability of the Council.

On 23 February 2023, full Council considered the Council's Capital Strategy and Ten-Year Capital Programme 2023/24 to 2032/33 Report that included the Council's proposed capital projects for both the General Fund and HRA with total proposed Council capital expenditure of £1.8 billion between 2023/24 to 2032/33.

Total planned capital expenditure for 2023/24 was £379.6 million. General fund capital projects for 2023/24 had an original budget of £245 million, funded by a combination of grants (£106.7 million), borrowing (£94.9 million), capital receipts (£41.4 million) and community infrastructure levy/developer contributions (£2m). Significant projects included the Council's major regeneration projections being Meridian Water development and regeneration of the Montagu Industrial Estate.

HRA capital projects for 2023/24 had an original budget of £134.6 million, funded by a combination of grants (£47.1 million), borrowing (£45 million), capital receipts (£27.6 million), major repairs allowance (£12.3 million) and reserves (£2.6 million). Significant projects included the Council's investment in maintaining existing properties, estate regeneration and development of new Council housing.

The Capital Strategy and Ten-Year Capital Programme 2023/24 to 2032/33 Report clearly identified capital expenditure for 2023/24 by directorate but also how each capital project aligned specifically to the Council Corporate plan which demonstrates good practice. The report stated the 2023/24 - 2032/33 capital programme has been developed in a very challenging economic environment, driven by steep rises in interest rates and inflation, with these factors leading the Council to review the affordability, viability and deliverability of all capital programmes and this review had resulted in delaying, amending or stopping some planned capital projects.

The report explained that the Council's review of the Capital Programme will continue during 2023/24 to ensure its affordability, and this review will include an assessment of assets with the aim of right-sizing the Capital programme in the medium term.

This would likely include the sale of low performing assets (capital disposals), with the capital receipts re-invested to help pay off historic Council debt and to support the creation of new capital assets.

We note that the general fund revenue cost of the capital programme was expected to be £32.4 million in 2023/24 or 12.4% of the net revenue budget, which represents a significant proportion of the Council's revenue budget which could limit the Councils ability to manage wider financial sustainability. The total 2023/24 revenue capital financing budget was £28.6 million , resulting in a revenue budget pressure of £3.8 million if the programme was to be delivered in full. The Council explained the revenue budget pressure, if realised, would be met from the Capital Financing Reserves. The Council had sufficient levels of reserves to meet the revenue pressures relating the capital programme, but reliance on reserves is not a sustainable and underlined the need for the Council to assess the affordability of the Council's capital programme. The Council capital financing costs for 2023/24 are also referenced within the treasury management section of this report.

On 13 September 2023 Cabinet considered the Capital Outturn 2022/23 and 2023/24 Quarter 1 Capital Monitoring capital Report. This report detailed the 2022/23 capital programme outturn and reported that the HRA capital expenditure for 2022/23 was £99.9 million representing 74.4% of the capital budget of £134.2 million for 2022/23. Significant areas of programme slippage related to the Council house development programme due to challenges arising from volatile market conditions requiring the Council to review the viability of some existing programmes. We consider the slippage in the HRA capital programme justifiable.

The report also set out general fund capital expenditure for 2022/23 of £113.5 million representing 32.2% of the capital budget of £352.2 million for 2022/23. The most significant area of programme slippage included the Meridian Water development with the report explaining the Council had revised downward budgeted expenditure in relation to Meridian Water in recognition of the challenging construction industry market conditions and the need to reduce the Council's exposure to financial risk from rising inflation and interest rates, with a revised Meridian Water business case being developed by the Council to ensure all risks in relation to this programme were identified. Matters relating to Meridian Water are covered in more detail later in this report.

The Capital Outturn 2022/23 and 2023/24 Quarter 1 Capital Monitoring capital Report explained that for quarter 1 2023/24 the Council had only spent £25 million (6.6%) of its 2023/24 approved capital budget of £379.6 million.

Financial sustainability (continued)

Capital Programme - General Fund and HRA (continued)

The Council explained that the entire capital programme was again under review to ensure capital projects where still affordable in consideration of the impact of interest rates rises on the Council's financing costs which was contributing to pressures on the Council's annual (general fund) revenue budget and the new capital strategy for 2024/25 would seek to reduce borrowing to help manage this risk. On 12 June 2024 Cabinet considered the Capital Programme 2023/24 Outturn Report which will be considered in detail as part of our 2024/25 Auditors Annual Report.

On 22 February 2024 full Council considered the 10-year Capital Programme 2024/25 to 2033/34 Report which proposed Council capital expenditure of £1.5 billion over 10 years, this represented a significant reduction of £0.3 billion, when compared to the prior year 10-year capital strategy. The Council explained this reduction had resulted from the fundamental review of the capital programme specifically focused on affordability.

The report also stated that from 2024/25 the Council would introduce an affordability metric which would require the Council's net debt financing costs to be between 10% - 12% of the annual net revenue budget and this would ensure that long-term debt financing costs remain affordable for the Council. The introduction of an affordability metric is good practice, and the boundaries are reasonable.

However, the reduction in the scale of the ten-year capital programme alone was not enough to remain with the boundaries of the affordability metric and the Council would need to reduce borrowing through maximising the use of capital receipts. The Capital Programme 2024/25 to 2033/34 Report explained the Council would rely upon £90 million of projected capital receipts to reduce borrowing requirements across in ten-year capital programme and that Meridian Water capital receipts (in addition to the £90 million) had also been taken into account in forecasting financing costs over the ten-year programme.

With the inclusion of these adjustments debt financing costs reduce to an average 6% of net revenue budget in years 5 to 10 of the ten-year programme. However, the report presented to full Council, did not disclose the amount of capital receipts anticipated from the sale of Meridian Water homes, and how this would result in reduced financing costs. This is included in a wider improvement recommendation later in this section.

Planned capital expenditure for 2024/25 was £315.5 million. General fund capital projects for 2024/25 have a budget of £213.8 million, funded by a combination of grants (£117.5 million), borrowing (£94.4 million), community infrastructure levy/developer contributions (£1.8 million) and capital receipts (£0.1 million).

HRA capital projects for 2023/24 had an original budget of £101.7 million, funded by a combination of grants (£36.4 million), capital receipts (£33.4 million), borrowing (£16 million), reserves (£10.3 million) and major repairs allowance (£5.6 million). Significant projects included the Council's investment in maintain existing properties, estate regeneration and development of new Council housing.

The estimated charge for capital financing to the General Fund is £31.4 million in 2024/25 which equates to 10%, down from 12.4% in the prior year, of the estimated General Fund Net Revenue Budget for 2024/25 and within the Council's affordability metric.

Financial sustainability (continued)

Capital Programme - General Fund and HRA (continued)

We also note that the 2024/25 Budget Report considered by full Council on 22 February 2024 highlighted that central government had recently consulted on the widening the scope of how Councils could use capital receipts to support the wider management of budget pressure. This indicates the Council is considering the use of capital receipts to drive further affordability in the capital programme (currently permitted) but also if permitted to support the alleviation of wider revenue pressures using one off capital receipts. On 30 March 2024 Cabinet considered a confidential Disposal of Land and Property Assets Report which detailed 24 capital assets for disposal over the period 2024-2026 and detailed the gross capital receipt values with the report recommending delegated authority be provided to the Cabinet Member for Finance, and in consultation with the Council, to market and finalise terms of sale.

The Councils ability to raise capital receipts, and the role of such receipts to support the affordability of the capital programme and potentially (if permitted) to support wider council financial resilience will require careful monitoring, governance and oversight to ensure assumptions with the 10-year capital programme are met and value for money is secured when disposing of capital assets, .

The Council's own capital programme affordability metric relies on Meridian Water asset disposals yet the intended value of these disposals, timelines and potential risks were not detailed within the Capital Programme 2024/25 to 2033/34 Report, nor did they form part of a confidential report, considered by full Council. We understand from the Council this was for reasons of commercial sensitivity.

This leads to an improvement recommendation. We recommend the Council further enhances the level of reporting, monitoring, governance and oversight in respect of the proposed programme of land and property assets disposals (including Meridian Water). To ensure those charged with oversight are provided with sufficient information to assess:

- Financial implications and outcomes of the planned disposals.
- Progress against the capital receipt assumptions (including Meridian Water) detailed within the Council's capital programme 2024/25 to 2033/34.
- Implications of any changes to the government's current capital directives on existing capital receipt assumptions.

Please refer to improvement recommendation 3 on page 43.

Meridian Water

Meridian Water is one of London's biggest regeneration projects, neighbouring the Lea Valley Regional Park, and is intended to create 10,000 Homes and 6,000 Jobs within a new neighbourhood for London. The Council is acting as master developer to deliver Meridian Water on a phase-by-phase basis over 25 years. In October 2019, Cabinet approved the Meridian Water: Financial Model and 10 Year Budget which detailed a required investment of approximately £531 million from Council over a 10-year period.

On 19 April 2023 Cabinet considered the Meridian Water Financial Model Report which included an update in respect of the progress of Meridian Water project, set out a revised financial model as the primary financial viability tool for the Meridian Water and sought Cabinet approval of Meridian Water Capital Budget of £248.1 million for the period 2023/24 – 2024/25, ahead of Full Council adoption.

The Meridian Water Financial Model Report explained that since the original Meridian Water financial model had been approved in 2019 there had been significant disruption to the economic environment which had resulted in generational significant inflationary rises, which was now impacting assumptions with the original financial model, and the Meridian Water development had also been impacted by resultant changes to the real estate market and housing infrastructure funding challenges, including the pausing of proposed rail works.

The report also explained the Council, proposed to commence, a voluntary provision to repay borrowing association with Meridian Water from revenue budgets, in addition to future Meridian Water capital receipts repaying related debt, reflecting changes in minimum repayment provision best practice.

The report stated all of these factors presented significant viability challenges to the original 2019 Meridian Water assumptions and the report explained the Council had proactively responded to these challenges and determined that a new financial model was needed to further improve the viability of the Meridian Water project.

The report stated the new financial model enabled the Council to test and monitor the Meridian Water scheme's overall viability, peak debt and risk exposure in addition to the financial position of individual parcels which will help drive the Council's strategy as Master Developer.

Financial sustainability (continued)

Meridian Water (continued)

The Meridian Water Financial Model Report explained all assumptions in the financial model had been updated to align with:

- Current market costs, values, and trends.
- Scenarios the Council can control and elimination of assumptions and scenarios it cannot control as per Council's risk tolerance.

The Meridian Water Financial Model Report set out core assumptions included within the new financial model, provided comparative information to the 2019 assumptions, set out details of sensitivity analysis undertaken, risks and mitigations and details of external assurance provided to test the new financial model assumptions.

The report also provided detailed explanations of development phases and explained that with initial phases now concluding the Council could consider future development options that reduced financial risk to the Council and the Meridian Water development strategy would continue to be reviewed by the Council during 2023/24 with a further report to be presented to Cabinet once this review has been completed.

The Meridian Water Financial Model Report provided detailed summary of ongoing Council activity to revise original assumptions within the Meridian Water financial model to adapt to the rapidly changing economic environment, increase viability of the project and reduce financial risk to the Council. Most of the report was published in the public domain (with one confidential due to commercial sensitivity information) which supported transparency in decision making.

Cabinet, on 21 February 2024 considered the Meridian Water Optimisation Business Case Report. The entire report was not made publicly available as it was deemed to contain exempt information as defined in the Local Government Act 1972.

The Council have provided us with the report, and we have considered the contents as part of our work.

In summary the Meridian Water Optimisation Business Case sought Cabinet approval to further improve the financial viability of the Meridian Water project.

The Meridian Water Optimisation Business Case Report summarised extensive Council activity conducted during 2023/24, to improve the viability of the project and to help ensure the Council met its best value obligations whilst reducing the revenue impacts to the Council , especially in consideration of the wider financial challenges it faces. This demonstrates the Council's willingness to review existing activity which evidences agile decision making by the Council which is good practice.

The Meridian Water project represents a considerable financial commitment to the Council and there are significant financial risks and dependencies within the optimised business case. These risk alongside the progress of the Meridian Water project will require careful ongoing assessment, governance and oversight by the Council and these factors are included in a wider improvement recommendation below.

We have been informed by the Council that there is an established regime in place to monitor the Meridian Water project and associated risks including the Meridian Water Executive Board, Regeneration Board, Meridian Water Project Steering Group and quarterly updates to General Purposes Committee to consider the Meridian Water Risk Register.

We also understand from the Council that on 26 March 2024 the Regeneration and Economic Development Scrutiny Panel also considered a Meridian Water Update Report. We do note that Meridian Water papers presented to both General Purposes Committee and the Regeneration and Economic Development Scrutiny Panel were not publicly available due to matters of commercial sensitivity.

In consideration of the significance of the Meridian Water project, the risks and opportunities, and the financial implications to the Council we consider the governance and oversight arrangements relating to the project could be reviewed and further enhanced and this leads to an improvement recommendation.

We recommend the Council provides regular, formal updates, to Cabinet in respect the Meridian Water Optimisation Business Case and overall project delivery. We also recommend the Council seeks opportunities to publish non commercially sensitive information relating to Meridian Water as part of these updates.

Please refer to improvement recommendation 4 on page 44.

Matters relating to capital receipt assumptions relating to Meridian Water have already been included within an earlier improvement recommendation.

Financial sustainability (continued)

Medium Term Financial Strategy 2024/25 - 2028/29 and Savings

On 22 February 2024, Full Council considered the 2024/25 Budget Report which, which included a Medium-Term Financial Strategy (MTFS) that covered a five-year period 2024/25 – 2028/29 and detailed an unfunded budget gap of £85.9m across the MTFS period which represents 27% of the 2024/25 net revenue budget.

The report explained the Council's MTFS had been formed within an environment of economic uncertainty and inconsideration of demographic pressure on demand led service and future savings and income generation proposals will be needed between to balance the budget.

The MTFS did not contain any assumed growth in business rate income or reflect any impact (positive or negative) of governments delayed fair funding review and the business rates baseline reset, or any future increases in the council tax precept.

The Council's MTFS 2024/25 - 2028/29 did not detail, within the Budget Report, different financial scenarios in relation to levels of central government funding for local authorities or other elements of financial variance such as varying rates of inflation and the impact of alternative decisions that could be taken in respect of the level of Council Tax charged.

The local government sector is operating with a significant degree of financial uncertainty driven by short term local finance settlements, delays to local government finance reform, and wider economic drivers such as generationally significant inflation changes and pressure from demand led services.

Scenario planning can be a beneficial tool in supporting financial planning, can enhance transparency and oversight to the budget setting process.

Although not raised as an improvement recommendation the Council could consider introducing wider financial scenario planning as part of its budget process.

Assessing the reasonable best, worst and optimum financial scenarios when setting the Council's budget and medium-term financial plans would enhance the Council's strategic financial planning and support the Council's financial sustainability, and flexibility, to accommodate a range of potential scenarios.

The Council's MTFS 2024/25 - 2028/29 detailed an unfunded budget gap as identified in Figure 2 below:

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Remaining Budget Gap (£m)	0.0	30.26	21.72	21.34	12.67	85.99

Figure 2 budget gap within MTFS 2024/25 – 2028/29 identifies, a budget gap of £85.99 million for the period 2025/26 – 2028/29 which represents 27% of the 2024/25 net revenue budget.

The Council's general fund reserves are forecast to be £46.4 million as of 31 March 2025 therefore the Council does not have sufficient general fund reserves to support the budget pressure identified in the MTFS 2024/25 to 2028/29 and reserves would be exhausted by 2026/27. The level of budget gap necessitates the Council to find substantial savings and/or new income streams over the next four years which creates significant financial risk to the Council.

The Council does have a track record of general fund savings delivery with £228.7 million of savings delivered since 2010. As at Quarter 3 2023/24 the Council reported that £12.3 million (78%) of savings were considered deliverable against a savings target of £15.8 million for 2023/24 with unachieved savings forecast to impact the 2023/24 revenue outturn.

The 2024/25 budget savings requirement increases to £16.57 million in 2024/25 and the scale of required savings for 2025/26 increases significantly to £30.26 million (1.8 times higher) and underlines the magnitude of the savings requirement the Council is facing.

The Council has taken proactive action to manage the financial challenges it faces by:

- Implementing spending controls to carefully monitor and contain expenditure.
- Organisational briefings have been held to disseminate the Council's current financial position and the Council budget setting process for 2025/26 has commenced earlier than normal to allow for extensive planning
- In May 2024, the Council held a 'Budget Fortnight' where Council officers participated in a programme of events to help support the identification of financial proposals, including savings to close the budget gap identified in 2025/26. The Council has informed us that this has resulted in additional savings being identified earlier than planned and helped foster an organisational response to the financially challenges being faced by the Council.

Financial sustainability (continued)

Medium Term Financial Strategy 2024/25 - 2028/29 and Savings (continued)

Despite this activity the Council faces significant financial challenges in the short to medium term, due to the budget gap and level of required savings, and this creates financial risk to the Council.

Additionally, we have already identified that the 2023/24 revenue outturn report detailed a worse than forecast adverse variance (total overspend of £39.4 million) with overspends being further impacted by an emerging budget pressure (£6.8 million) that the Council became aware of in quarter 3 2023/24, relating to housing benefit subsidy loss where there is an increasing material difference between the housing benefit subsidy level and the amount that can be reclaimed from the government for supported living accommodation. This has further and significantly impacted general fund reserve levels. The level of Council general fund reserves are now of a level that offers limited contingency.

All of the factors outline above combine to present a significant weakness in the arrangements to support the financial sustainability of the Council in the short term and leads to a key recommendation.

We recommend the Council places a significant and immediate focus on:
- Developing mitigations to contain further emerging budget pressures.
- Identifying further planned savings, and wider alternatives to the use of reserves, in the management of budget gaps identified within the Council's MTFS.

These actions will support the Council to remain financially sustainable in the short term.
Please refer to key recommendation 2 on pages 8 - 9.

HRA Savings

On 23 February 2023 Full Council considered the HRA Budget 2023/24, Rent Setting and Business Plan Update Report which stated the a £1m per annum efficiency saving in Management and Maintenance has been built into the HRA Business plan until 2025/26. These efficiencies saving would be delivered by:

- System improvements.
- Reviewing the management of voids, staff structure, service charges.
- Assessing the need of certain non-core services currently provided.

On 17 January 2024 Cabinet considered the HRA Forecast Report which provided the HRA forecast for 2023/24, as of the 30 November 2023, and stated 'The HRA Business Plan has an efficiency target of £1m to be achieved this financial year, work is ongoing to achieve this target, including through a realignment of the structure. These savings will ensure the HRA remains sustainable and remains within the recommended hurdle rate levels.' The report provided limited information in respect of the wider range of savings efficiencies referenced within the HRA Budget 2023/24 and did not quantify the degree of savings that had been delivered during 2023/24 as in the case of general fund budget monitoring reports. A more detailed analysis of the Council's progress in achieving agreed HRA savings would enhance budget monitoring reports, increase transparency and strengthen oversight and this form part of a wider improvement recommendation later in this report.

Council Reserves

On 22 February 2024, Full Council considered the 2024/25 Budget Report which included a report of the Chief Finance Officer on the robustness of the adequacy of the Council's reserves in adherence to the requirement within Section 25 of the Local Government Act 2003.

The Chief Finance Officer stated the level of Council reserves where low for the Council's size. Total general fund reserves, earmarked and unallocated, are forecast to be £46.4m as of 31 March 2025 and includes an unallocated general fund balance of £14.4m.

The report explained the Council had undertaken a full review of Council reserves to consider the adequacy in account of the financial risks facing the Council with the report recommending the general fund balance to be maintained at a minimum of 5% of the 2023/24 net budget and concluding there were sufficient general fund reserves to manage the financial risks identified. However the report explained that should further financial risks arise that are unable to be contained, there would be insufficient reserves to cover these pressures, whilst noting the projected budget gap for 2025/26 was significant.

The Council setting of a minimum level of general fund balance is adequate practice but is based on the prior year net revenue budget. The 2024/25 general fund balance is 4.5% of the net revenue budget which offers reduced resilience however we note the Council stated within the Section 25 report that subject to availability of funds the general fund balance will be increased to £15.8m during 2024/25.

Financial sustainability (continued)

Reserves (continued)

The Section 25 report concluded that the reserves where adequate but due to the level of risk held, the overall financial position is significantly weakened, and the following actions needed to be taken by the Council to support financial resilience:

- Containing the costs associated within homelessness.
- To ensure a robust budget accountability regime in 2024/25 and instigating a tighter cost control regime.
- To initiate the 2025/26 budget process early.
- Ensure that capital receipts required to support the budget are maximised in value and delivered on time.*
- The impact of the Council Tax Support Scheme proposals are monitored closely
- DSG recovery plan for high needs to be monitored and delivered.*
- Monitoring of key risk areas is even more critical given there are limited reserves to meet any additional financial risks and management action to address these will need to be at pace.
- Evaluation of the proposed Government flexibilities to utilise capital receipts to support Councils and how this may support the Council's financial resilience.

(*please note associated key recommendation already raised in this report)

The sustainability of the Council's general fund reserves, in the absence of identified savings, has already been identified in a wider key recommendation on page 27.

The 2024/25 Budget Report also set out HRA reserves of £31.26 million which included an HRA working balance of £4.1 million (5% of total HRA revenue expenditure for 2024/25) and Schools' Reserves and Balances of £1.3 million. With overall total Council reserves forecast to be £76.29 million as of 31 March 2025.

Treasury Management

The Council sets a treasury management strategy annually as part of the budget setting process. The Council's treasury management activities are also supported by external consultants which demonstrates adequate practice.

On 15 November 2024 Cabinet considered the Treasury Management Mid-Year Update 2023/24 which outlined the activities of the Council's treasury management activities to 31 August 2023 and the update stated over the reporting period the Council had complied with all the prudential indicators set out in the Council's Treasury Management Strategy statement approved by full Council 23 February 2023.

The Treasury Management Mid-Year Update 2023/24 included a summary of the Council's borrowing and as of 31 August 2023 Council has £1.1 billion of external debt which remained below the Capital Financing Requirement (CFR - The Council's underlying need to borrow for capital expenditure) of £1.4 billion approved in the Treasury Management Strategy, for 2023/24.

On 12 June 2024 Cabinet considered the Treasury Management Outturn Report 2023/24. This report explained that for 2023/24:

- The overall cost of capital financing to the general fund was £24.7 million and below original estimates of £28.6 million.
- Capital financing costs were equivalent to 8.6% of the net revenue budget.
- Due to lower-than-expected Capital financing costs the Council was not required to call upon capital financing reserves as originally forecasts when the 2023/24 Capital Programme and Treasury Management Strategy were set.
- The Council's accumulated external debt as of 31st March 2024 was forecast to be £1.25 billion which was below the Council's CFR of £1.4 billion.

The Council's Treasury Management Outturn Report 2023/24 reflected the impact of the Council's proactive review of the affordability of the Council capital programme resulting in the Council demonstrating positive compliance to its own measure of capital programme affordability and a key prudential indicator (CFR), which demonstrates good practice and is an important component of the Council's activity to help alleviate the financial challenges it is facing.

The Treasury Management Outturn Report 2023/24 stated that during the 2023/24 the Council was in compliance with all indicators, used to ensure its activities were within well-defined limits.

Financial sustainability (continued)

Treasury Management (continued)

On 21 February 2024 full Council adopted the Treasury Management Strategy Statement for 2024/25 which detailed the Council's CFR for 2024/25 was £1.4 billion and explained the Council CFR was expected to peak at £1.6 billion in 2028/29 but then expected to reduce to £1.3 billion in 2033/34 due to planned capital receipts from asset disposals. Matters relating to the Council's ability to raise capital receipts, through asset disposals, and the role of such receipts to support the affordability of the capital programme has already been raised as part of an improvement recommendation earlier on in this report.

The Council's total capital financing costs, after charges, income and minimum revenue provision, being £31.4 million for 2024/25 which was within the Council's own affordability metric as referenced earlier in this report.

The Treasury Management Strategy Statement for 2024/25 explained the Council lends money to two of its own companies to Housing Gateway Limited (HGL) and Energetik , with the report explaining Energetik was reviewing its business plan to demonstrate that it remains able to repay existing and future loans. Matters related to the Council's companies are covered in more detail in the next section of this report.

Council Companies

On 15 November 2023 Cabinet considered the Council Companies Performance Monitoring Report which updated Cabinet on the performance of all Council Companies as at Quarter two of 2023/24.

The Council Companies Performance Monitoring Report included the following key updates:

Energetik

The company was established in 2015, and the Council owns 100% of the share capital. The company's objective is to develop, build and operate a district heat network to serve homes/businesses with heat and hot water. The original 40-year business plan was approved in 2017. Energetik is funded by Council onward borrowing and grants. The total funding to be provided via the Council is £94 million.

The main revenue stream for the company is through the charging of connection fees and heating sales.

The Council Companies Performance Monitoring Report (Quarter two 2023/24) explained that the Council had advanced loans of £37 million to Energetik as of 30 September 2023. Grants of £17 million have also been passported to Energetik. Total onward funding provided to Energetik by the Council amounted to £54 million as of 30 September 2023. The report also explained Energetik's financial business model had been impacted by adverse economic conditions including inflationary pressures, high interest rates and revisions to the Council's capital programme, and these factors had resulted in less than homes, than forecast, connecting to Energetik's heat network and this has resulted in lower than forecast connection fee income, and subsequent revenue income from heat sales. Consequently, there had been less revenue available to meet Energetik's operating costs whilst servicing capital loans that are required to develop other parts of the heat network.

The report explained Energetik was able to generate cashflows from the 863 customer connections that it has secured and has been able to service its debt to the Council, however due to a delay in large Council developments and the impact on future connection fees Energetik did require a working capital facility from the Council to fund operational costs until such time additional income streams were realised and the Council has agreed to forward Energetik a working capital facility of £3.5 million. The Council Companies Performance Monitoring Report (Quarter two 2023/24) also stated that Energetik remained solvent, work was underway (supported by external advice) to refresh Energetik's business plan due the challenges being faced and the Council and Energetik were also reviewing the opportunities for external partnerships to facilitate the long-term growth of the network and that Energetik would not entering any new contractual commitments until this work is completed. The Council Companies Performance Monitoring Report also included a confidential section which included further financial information relating to Energetik which had been classed as exempt by the Council and not publicly reported.

On 12 June 2024 Cabinet considered a report - Energetik Operating Plan and Project Plan for Strategic Review. The report was not publicly available as it was deemed to contain exempt information as defined in the Local Government Act 1972. The Council have provided us with these exempt reports, and we have considered the contents as part of our work. In summary Energetik, in partnership with the Council, has revised the its operating plan and now intends to review its strategic future with subsequent recommendations being considered by Cabinet.

Financial sustainability (continued)

Council Companies (continued)

The report carried three recommendations as follows:

- To note Energetik's Operating Plan 2023 – 2026, including staffing changes and financials noted within.
- To note that while the Operating Plan seeks to mitigate divergences to the agreed Business Plan, agreement to changes to the Business Plan will be the subject of a future Cabinet report.
- To agree that officers take the next steps towards engaging with a Strategic Partner by beginning the procurement of a Partner Selection Manager (PSM) and Legal Advisor.

The revised operating plan referred to external advice that had been sourced in the development of the revised plan – *'Detailed finance and funding information Energetik's business plan is underpinned by a 40-year financial model that tracks revenues and costs over the long term to assess the viability of the business. This model has been independently reviewed and verified by EY, KPMG and most recently Teno Energy Limited. The model is regularly updated with changes in costs and development phasing'*

The actual Energetik Operating Plan and Project Plan for Strategic Review also referenced the role of external advice in respect of *Energetik 'Looking beyond the Operating Plan, the Council and Energetik have been working together to help formulate the Council's plans on securing a future strategic partner. This has been greatly assisted by the Energetik management team and the support of the council's Shareholder Adviser, of Inventa Partners'*

The use of external advice can provide useful input to support decision making, but the papers presented to Cabinet on 12 June 2024 did not provide a summary of the actual advice provided, clearly explain which party the advice was directed to i.e. Energetik or the Council (which would have assisted members to assess the nature and any degree of optimism bias within the advice provided), how such advice supported proposed activity and the risks associated with such proposed activity.

A summary of such advice and would have provided supporting context specifically in relation to the recommendation to Cabinet 'To agree that officers take the next steps towards engaging with a Strategic Partner by beginning the procurement of a Partner Selection Manager (PSM) and Legal Advisor'

The Energetik Operating Plan and Project Plan for Strategic Review Report did include reference to some factors which could impact the company positively or negatively and outlined risks that could impact the Council if certain assumptions within the revised Energetik operating plan were not met.

However, we consider the Council has not fully identified in the Energetik Operating Plan and Project Plan for Strategic Review Report the full range of financial and non-financial risks that could impact the Council if assumptions within the Energetik's revised operating plan are not accurate. The Council has not clearly identified any risks identified by external advice provided to the Council as a shareholder, nor has the Council clearly identified how such risks could potentially impact the strategic review process. Worst, best and optimum scenarios were not included and there was no reference to sensitivity analysis of key assumptions in the report, although we understand sensitivity analysis was undertaken.

We also consider greater governance and oversight of decisions relating to Energetik would also further support the overall decision-making process and increase transparency. These factors, together, have been identified as a significant weakness in arrangements and leads to a key recommendation.

We recommend the Council more fully identifies, quantifies, and carefully manages the financial and non-financial risks associated with its involvement in Energetik and these are assessed, along with proposed mitigations, in each stage of the Energetic project plan for strategic review to be agreed by the Council during 2024/25 onwards.

We also recommend the Council satisfies itself that the planned governance and oversight arrangements in respect of the Energetic project plan for strategic review are sufficient considering the potential implications of decisions on the Council.

Please refer to key recommendation 3 on pages 10 - 11.

Housing Gateway Limited (HGL)

HGL was established in March 2014 is a wholly owned by the Council. HGL is responsible for acquiring and managing properties in the private rented sector, to be used by the Council to discharge its statutory homelessness duties. HGL has built up a portfolio of 632 homes. HGL also includes a consolidated division known as Enfield Let which is described as ethical lettings agency, assisting those who would otherwise struggle to access private housing and aims to divert residents from presenting as homeless to the Council.

Financial sustainability (continued)

Council Companies (continued)

The Council Companies Performance Monitoring Report (Quarter two 2023/24) explained HGL's property acquisitions are mainly financed by onward Council lending and HGL was projected to have a loan balance of £120.1 million as of 1 March 2024 and the underlying book value of the HGL fixed assets totalled £157 million at the end of 2022/23. The report also stated HGL had made a financial profit in the last two financial years, was forecasted to make a profit in the current financial year (2023/24), continued to remain solvent, and had supported the Council to mitigate temporary accommodation costs during 2023/24. Matters relating to temporary accommodation expenditure has already been identified within an improvement recommendation earlier in this report.

The Council Companies Performance Monitoring Report (Quarter two 2023/24) explained HGL's business plan was currently being updated and on 12 June 2024 Cabinet considered the HGL Business Plan 2024/25. The report explained that HGL property portfolio had grown during 2023/24 resulting in an overall portfolio of 647 owned properties and 685 leased (from the Council) properties. The report also explained the draft HGL revenue outturn 2023/24 was in fact a £1.6 million loss primarily due to the impact of in an adverse adjustment (£2.2 million) to the valuation of the HGL property and stated HGL had reviewed its financial model and developed a 30-year financial business plan and a Treasury Strategy that supports the 30-year plan, which supports financial planning and is reasonable practice.

The HGL Business Plan 2024/25 stated HGL retained a property portfolio worth £161 million with borrowing at £133 million as of 31 March 2024 and confirmed HGL has continued to meet all its loan obligations throughout the life of the company. HGL also stated within the Business Plan that it planned to refinance its short-term loans arrangements to minimising adverse interest rate exposure and this would in part enable further growth in HGL's acquisition programme, with the report stating HGL has sufficient profit from operations to cover interest expenses.

However, we do note that the HGL Business Plan 2024/25 requested Cabinet provide delegated authority to the Council to provide a £2 million working capital facility to HGL that can be utilised in case of cash flows not coming through in the expected timescales.

The report explained this is required because of potential timing differences in lease payments and nomination fee payments from the Council as a result of the temporary accommodation transfer programme and the Council will work with HGL to minimise the use of the working capital facility.

The HGL Business Plan 2024/25 provided and informative and transparent summary of the company's activities and financial position. The need for the Council to forward working capital to HGL in 2024/25, its actual use and sufficiency will be assessed in detail as part of our Auditors Annual Report for 2024/25.

Financial sustainability (continued)

Alignment of financial and other corporate plans

Sustainability

In 2019 the government passed legislation to bring all greenhouse gas emissions to net zero by 2050. This was to align with the commitments in the Paris Agreement to limit global warming to 1.5 degrees.

The Council declared a Climate Emergency in 2019 and on 15 July 2020, Cabinet recommended to full Council the adoption of a Climate Action Plan 2020 which explained how the Council will work with staff, suppliers, residents, businesses, schools, statutory partners and government to become a carbon neutral organisation by 2030 and create a carbon neutral borough by 2040.

The Council's Climate Action Plan 2020 detail specific activity that would be undertaken in the following areas: The Council's operations, Travel, Buildings, Waste, Energy, Natural environment, and Influencing others.

The first area of the plan– 'the Council's operations' set out how the Council had established a baseline of its carbon footprint emanating from its own operations and explained proposed Council activity, including offsetting, which would support the Council's to become carbon neutral by 2030.

The Council's Climate Action Plan 2020 also set out how the Council's carbon neutral aspirations would be financed, coordinated and monitored which included a commitment to publicly publish progress on an annual basis.

The Council's Strategic Plan 2023-26: Investing in Enfield, adopted by full Council on 14 June 2023, has five priorities one of which is 'Clean and green places' which included Council commitments to: Enhance biodiversity and protect our parks, open spaces, woodlands, watercourses, wetlands, trees and shrubs, Enable active and low carbon travel, Facilitate reuse of materials, reduce waste and increase recycling rates, and Reduce carbon emissions from our buildings, street lighting, fleet and the goods and services we procure.

The Council's Climate Action Plan 2020 and Council Plan 2023-26: Investing in Enfield can demonstrate direct alignment and interconnectivity, representing good practice.

In November 2023, the Council published an annual Carbon Emissions Review 2022/23 which reported that the Council was exceeding its carbon neutral trajectory and reported a 30% decrease in the Council's direct emissions over the original baseline of the Council's carbon footprint, which demonstrates adequate progress.

For the financial years 2020/21 and 2021/22 the Council had also published an Annual Climate Action Progress Report, alongside the annual Carbon Emissions Review, detailing progress against the all the key performance indicators set in the Climate Action Plan 2020.

Our work has also established the Council has been actively reviewing and updating the Climate Action Plan 2020. On 12 June 2024 Cabinet considered a revised Enfield Climate Action Plan 2024.

The Council's revised Climate Action Plan 2024 could have implications to the Council's financial planning and these factors will be considered in detail as part of our 2024/25 Auditors Annual Report.

Financial Planning

The Council's Strategic Plan 2023-26 also includes five underpinning principles which explains how the Council will operate to achieve its stated corporate priorities. The principles being: fairer Enfield, accessible and responsive services, financial resilience, collaboration and early help and climate conscious.

The 2024/25 Budget Report and MTFS 2024/25 - 2028/29, agreed by Full Council on 22 February 2024, states the primary purpose of the development of the MTFS 2024/25 - 2028/29 is to direct resources to deliver the priorities set out in the Council's Strategic Plan 2023-26 and explains how the MTFS directly supports the Council's Strategic Plan 2023-26 principle ' financial resilience' through the Council becoming less reliant on central government funding, through additional income generated through commercial activity and also by the redesign of Council services.

Financial sustainability (continued)

Alignment of financial and other corporate plans (continued)

Additionally, the Council's 10-year capital programme 2024/25 to 2033/34, also agreed by Full Council on 22 February 2024, included proposed capital projects assigned and ordered by corporate objective which provided direct synergy between the Council's corporate and capital strategies representing further good practice.

Asset Management

On 13 September 2023 Cabinet agreed the HRA Asset Management Strategy which set out how the Council will maintain, manage, and invest in its Council homes. The Strategy explained how it aligned with the five priorities of Council's Strategic Plan 2023-26 as follows:

- Clean and green places – ensuring land is well-designed and well-managed.
- Strong, healthy and safe communities – reducing carbon and improving sustainability.
- Thriving children and young people – providing warm, safe and comfortable that are good for health and wellbeing.
- More and better homes – regeneration and development programmes delivering more homes and capital works programmes improving the decency and energy efficiency of our current homes.
- An economy that works for everyone – ensuring opportunities available through our capital programme procurement provides local people with skills and employment opportunities.

Our work has established the Council's Strategic Asset Management Plan (non HRA physical assets) 2019 – 2024 is required to be updated. This will ensure the strategic management of the Council's non HRA physical assets aligns to the delivery of the Council's Strategic Plan 2023-26 and will help inform the Council's planned programme of land and property assets disposals and this leads to an improvement recommendation. We recommend the Council updates its Strategic Asset Management Plan (non HRA physical assets) 2019 – 2024 and ensures alignment to the Council's Strategic Plan 2023-26, the Council planned programme of asset disposal and supports the delivery of the Council's The Council's Climate Action Plan 2024.

Please refer to improvement recommendation 5 on page 45.

Workforce Planning

During 2023/24 the Council introduced a Workforce Strategy 2023-2028 which set out four priorities for the Council's workforce being:

- Resourcing and talent.
- Developing our people.
- Culture and transformational change.
- Making our mark on equality, diversity and inclusion.

Each priority was underpinned by planned Council actions, designated lead officers/areas and progress against agreed action would be measured. The Council's Workforce Strategy 2023-2028 provided a comprehensive appraisal of the Council workforce needs and demonstrated alignment to Council's Strategic Plan 2023- 2026 which demonstrates good practice.

Financial Governance

Financial Governance - Annual budget setting process

The Council's budget setting process for 2024/25 followed an established process that involved internal and external engagement that included members, officers and stakeholders.

The budget setting process for 2024/25 began in the spring of 2023 and included a series of initial internal Executive Management Team Budget Group meetings (Chief Executive, Section 151, Monitoring Officer and Council Directors) within which the Council reviewed and updated the existing MTFS in consideration of the Council's current financial position with a briefing of the emerging financial position being provided to the Council leader.

During the summer of 2023, the Council took steps to assess Council discretionary spending through the formation of a specific working group to consider options in relation to the Council's Council Tax Support Scheme including potential savings, additionally wider savings targets were developed with services and deep dive reviews were also undertaken with specific services to better understand reasons for adverse budget variances in the prior year and what measure could be introduced to mitigate further overspends.

On 13 September 2023 Cabinet considered the first update of the funding and spending assumptions in the MTFS 2024/25 to 2028/29, and this report identified a budget gap of £39.4m for 2024/25 and explained the Council's would need to consider different ways of operating to remain financially sustainable in the long-term.

The Cabinet report also detailed the actions being taken by the Council to close the budget gap in 2024/25 which included:

- Departmental 'deep dive' sessions, covering review of budget pressures, service delivery, assessment of discretionary and non-discretionary spend, review of staffing structures, and savings and income proposals.
- Implementation of spending controls during 2023/24.
- Evaluations of 2023/24 in-year savings to ensure deliverability and establish whether they can be considered permanent and early implementation of 2024/25 savings where possible.
- Review of planned capital expenditure

On 15 November 2023 Cabinet considered a further update report in respect of the MTFS 2024/25 to 2028/29, and this report identified a remaining budget gap of £15.5 million for 2024/25, after the application of proposed savings, including changes to CTS and council tax increases for 2024/25.

During the same meeting Cabinet considered the 2024/25 - 2033/34 Capital Strategy Report which set out the Council's 2024/25 Capital Strategy, and ten-year capital programme.

The draft Medium Term Financial Plan 2024/25 to 2028/29 was considered by the Overview and Scrutiny Committee on 15 January 2024 with the minutes of the meeting demonstrating active assessment of the draft budget proposals by members, which is good practice.

On 31 January 2024, the General Purposes Committee considered the proposed Treasury Management Strategy 2024/25 and on 21 February 2024 Cabinet considered, and recommended the adoption by full Council, the following suite of budget setting reports for 2024/25:

- Final draft Budget 2024/25 and MTFS 2024/25 to 2028/29.
- Capital Strategy and Capital Programme 2024/25 to 2033/34.
- Council Tax Support Scheme 2024/25.
- HRA Budget and Rent Setting Report 2024/25
- 202425 Treasury Management Strategy.

On 22 February 2024, Full Council approved a balanced budget for 2024/25 and based on the recommendations from Cabinet.

The Council's budget setting process for 2024/25, in respect of the general fund, was comprehensive, thorough and included input from a wide range of officers, members and stakeholders which supported the Council to respond to the financial challenges being faced by the Council.

Financial Governance (continued)

Financial Governance - Annual budget setting process (continued)

We note that the Council's constitution states the Overview and Scrutiny Committee will 'consider, comment on and propose amendments to the budget proposed by the Executive' and in adherence to this the committee did provide oversight to the Council's draft 2024/25 general fund budget.

The Council's HRA Budget and Rent Setting Report 2024/25 was not considered by the Overview and Scrutiny Committee, nor the Council's Finance & Performance Scrutiny Panel, head of the Cabinet meeting of 21 February 2024 and the full Council annual budget setting meeting of 22 February 2024 and this leads to an improvement recommendation.

We have been informed by the Council that the Finance and Scrutiny Committee did assess the HRA Budget and Rent Setting Report 2024 on 7 March 2024, but this was after the proposals had been adopted by full Council on 22 February 2024 and this leads to an improvement recommendation.

We recommend the Council further enhances its annual budget setting process by ensuring the Overview and Scrutiny Committee is provided with an opportunity to formally assess and comment on the Council's draft HRA Budget and Rent Setting Report, ahead of the full Council annual budget setting meeting.

Please refer to improvement recommendation 6 on page 46.

Financial Governance - Budget Monitoring and Oversight

During 2023/24 budget holders completed a quarterly budget forecast, in collaboration with the finance team when required, to identify variances against the original budget set, and the reasons for variances.

The finance team then produced quarterly budget monitoring reports for 2023/24 which then subject to governance and oversight by Cabinet and then the Finance and Performance Scrutiny Panel quarterly.

The budget monitoring reports included quarterly revenue and capital variances, details of the Council's progress against agreed savings and included relevant service information that provided a supporting narrative to the revenue forecasts.

We have already identified earlier in this report that the Councils the HRA Forecast Report 2023/24 (30 November 2023) included limited information on the delivery of agreed savings, additionally we have established that 2023/24 HRA revenue budget monitoring reports were considered by Cabinet but not by the Finance and Performance Scrutiny Panel, despite Panel considering general fund revenue and both general fund and HRA capital monitoring reports and these factors lead to an improvement recommendation. We do note the responsibilities of the Finance and Performance Scrutiny Panel were subsumed into the functions of Overview and Scrutiny Committee from May 2024. Therefore, the recommendation refers to Overview and Scrutiny Committee.

We recommend the Council enhances further its existing budget monitoring and oversight arrangements by:

- Including more detailed information in respect of progress made in the delivery of agreed HRA savings within HRA budget monitoring reports.
- Providing Overview and Scrutiny Committee with quarterly HRA revenue budget monitoring reports.

Please refer to improvement recommendation 7 on page 47.

Formal governance of the Council's treasury management activities were also provided by Cabinet on 15 November 2023, the Treasury Management Mid-Year Update 2023/24 report provided Cabinet with an update of the Council's Treasury Management function over the five months to 31 August 2023.

The Treasury Management Mid-Year Update 2023/24 report also stated the Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice which requires the Council to approve treasury management semi-annual and annual reports. With effect from 1 April 2023 new requirements were introduced within the CIPFA Treasury Management Code recommending Council's adopt enhanced quarterly monitoring and governance of treasury management prudential indicators.

We understand from the Council that from 2024/25, Cabinet will provide oversight of the Council's treasury management prudential indicators quarterly in compliance with the CIPFA Treasury Management Code. As already referenced 12 June 2024 Cabinet considered the Treasury Management Outturn Report 2023/24 which provided members with a comprehensive, detailed and informative assessment of the Council's treasury management activity during 2023/24 which is good practice.

Financial Governance (continued)

Finance Team Capacity and Systems

On 28 June 2023, the General Purposes Committee considered the Council's Annual Governance Statement (AGS) for 2022/23 which formed part of the draft statement of accounts for 2022/23. The AGS stated the Council had in recent year sought to strengthening its financial management arrangements and as part of this process, the Council had commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake independent reviews to inform the Council's approach. The CIPFA reviews, conducted in 2021/22, identified key challenges for the Council to address including matters relating to finance team capacity/skills and the need for an improved finance system. The Council has since acted in part on these recommendations and introduced changes within the finance team structure that include two new senior posts providing additional leadership and managerial support to the Council's corporate and capital and commercial finance teams. We have been informed by the Council that as of March 2024 the finance team had an average vacancy factor of 11% (after taking into account interim staff) which could impact resilience in this key corporate area.

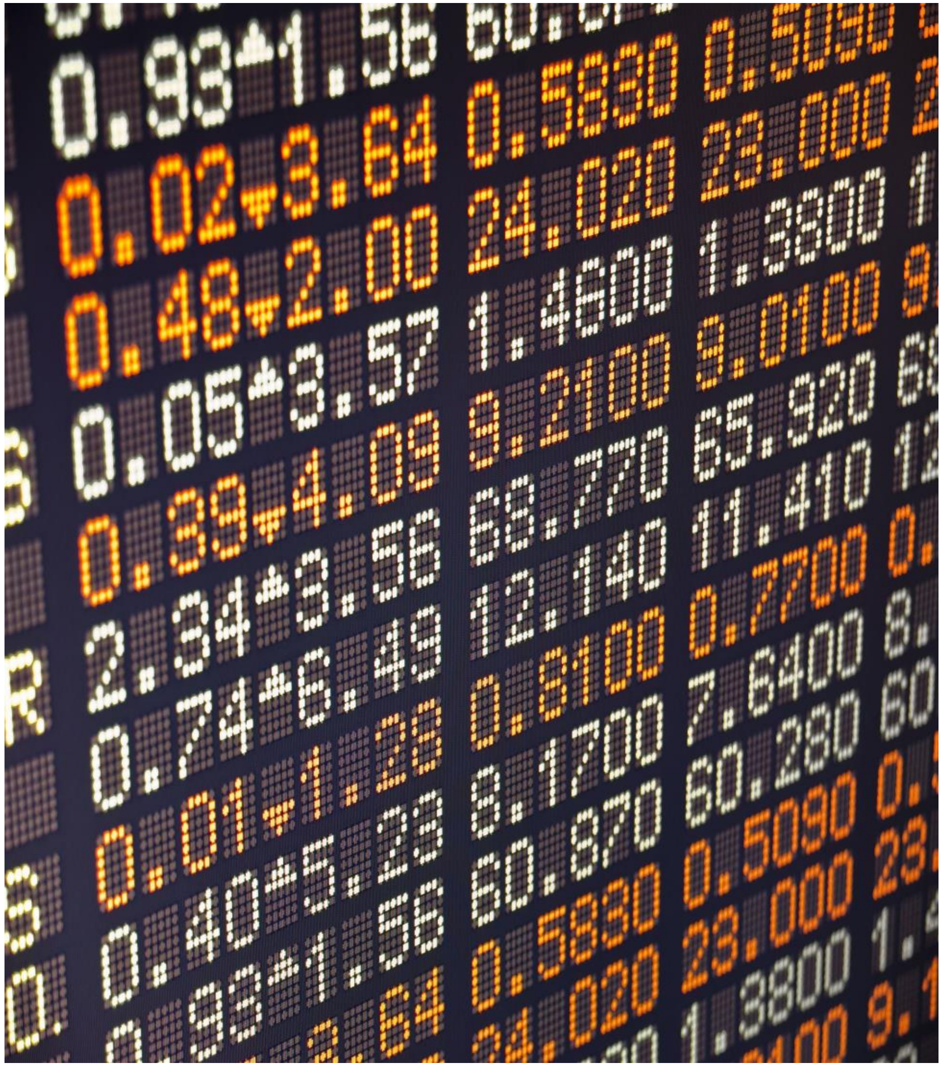
As already identified, we have established that the finance team responsible for supporting the people service area has been disproportionally impacted by vacancies.

Matters relating to the capacity of the finance team are included in a wider improvement recommendation in the following section.

The CIPFA reviews also identified that challenges with the Council's current finance and budget monitoring systems were impacting on the finance team's time, focus and ability to move focus from transactional activities to focusing more on value added activities.

Additionally, we have established an internal audit report, financial external audit process, dated May 2023, also identified issues with the Council finance system and noted the functionality of the system was limited, as well as lacking integration with wider systems resulting in manual manipulation of data by the finance team and that they had been informed the system can only perform basic reporting functions.

The Council has informed us that the current finance system is yet to be replaced and will no longer be supported past 2027.



Financial Governance (continued)

Finance Team Capacity and Systems

Funding for a new finance system has been set aside, but a specific scoping or procurement exercise is yet to commence. The Council has explained the replacement has been deferred in consideration of the significant resource and capacity challenge the project would incur when the main organisational focus needs to be on addressing and improving the Council's financial resilience. Despite these challenges external and internal reviews have identified deficiencies with the Council's finance system that are negatively impacting the finance team, and the systems is no longer fully supported beyond 2027 and these factors are included in the following improvement recommendation. We recommend the Council strengthens its finance team operations by:

- Taking proactive measures to reduce the overall vacancy factor within the finance team whilst reducing reliance on interim staff.
- Identifying and addressing any skills and capacity gaps within the finance team.
- Progressing the intended finance system procurement within a suitable timeframe to ensure the finance system meets the needs of the business.

Please refer to improvement recommendation 8 on page 48.

Prior year findings

We are aware of delays in the audit of the Council's accounts going back several years. Your previous external auditor is yet to issue Auditor's Annual Reports up to 2022/23 and therefore this interim 2023/24 report is presented without any commentary on prior periods.

We will be mindful of any findings from your previous external auditor once they report and may need to revisit our findings as a result.

Conclusion

We have identified three significant weaknesses in arrangements, for 2023/24, in how the Council manages risks to its financial sustainability. These are explained in more detail on pages 6 to 11. Additionally, we have made eight improvement recommendations set out on pages 41 to 48.

The Council, like others in the sector, is faced with several significant financial challenges. The Council has taken action to contain budget overspends, reduce the revenue impact of its capital programme, assess and make recommendation in respect of controllable spend and proactively engaged the organisation to respond to the financial pressures its faces. However, the Council will have to carefully navigate a challenging financial environment in the short to medium term to ensure ongoing financial sustainability.

Improvement recommendations

Improvement Recommendation 1	We recommend the Council provides an update report to Cabinet, during 2024/25, in respect of temporary accommodation service and the progress of Council activities to mitigate temporary accommodation budget variances. The report should also include updates in respect of: • The impact and appraisal of the Council's placement policy and new service model, introduced during 2023/24. • The activities and impact of the temporary accommodation task force and HGL in mitigating temporary accommodation expenditure. • Progress in respect of the Council's stated aim to end the use of hotel accommodation.
Improvement opportunity identified	Additional oversight of the mitigations undertaken by the Council to reduce temporary accommodation overspends, by the those charged with governance, would enhance existing budget monitoring arrangements and provide a specific focus to this area of financial risk.
Summary findings	Temporary accommodation costs were overspent by in 2022/23 and the draft statement of accounts for 2023/24 states Housing and Regeneration budget will be overspent by £18.6 million. The level of budget variance in 2023/24 presents considerable financial risk to the Council.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The recommendation is agreed. There is already quarterly reporting to the Cabinet on the temporary accommodation overspend via the regular budget monitor cycle. In addition, regular updates to Cabinet Members (Finance and Housing) are in place together with a monthly EMT temporary accommodation dashboard with targets against which the progress is monitored. A further standalone report will be considered at Cabinet focussed on Homelessness – to include an update on temporary accommodation cost reduction plan and the impact of the decisions made. This will be considered alongside the MTFP in February 2025.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 2	We recommend the impact of the CTS scheme changes, introduced for 1 April 2024, should be to be subject to enhanced budget monitoring, and assessed by those charged with governance, regularly during 2024/25.
Improvement opportunity identified	This improvement recommendation seeks to further enhance the Councils monitoring of the impact of the CTS scheme changes whilst enhancing transparency and oversight.
Summary findings	This Council has introduced significant changes to the level of entitlement within the Councils CTS scheme. These changes could adversely impact council tax income payable to the Council, despite assumptions already factored within the Council's financial planning, which could create financial risk to the Council. The impacts of these changes should be regularly reported to those charged with governance.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation is agreed and already in place. Cabinet member for Finance and EMT already receive regular updates on the CTS implementation. This information is also reported publicly through the quarterly cyclical cabinet performance reports Income Collection targets and the quarterly budget monitoring report (see Q1 report in September 2024). The Section 151 has led a fortnightly project group since the beginning of the year which includes monitoring collection data and the allocation of hardship funding.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 3	We recommend the Council further enhances the level of reporting, monitoring, governance and oversight in respect of the proposed programme of land and property assets disposals (including Meridian Water). To ensure those charged with oversight are provided with sufficient information to assess: • Financial implications and outcomes of the planned disposals. • Progress against the capital receipt assumptions (including Meridian Water) with the Council's capital programme 2024/25 to 2033/34. • Implications of any changes to the government's current capital directives on existing capital receipt assumptions.
Improvement opportunity identified	Additional reporting, monitoring, governance and oversight of the proposed Council activity to generate capital receipts will enhance existing arrangement and increase transparency even further.
Summary findings	The Councils ability to raise capital receipts, through asset disposals, and the role of such capital receipts to support the affordability of the capital programme and potentially (if permitted) to support wider council financial resilience will require careful reporting, monitoring, governance and oversight to ensure assumptions with the 10-year capital programme are met and value for money is secured. Full Council on 22 February 2024 were not provided with specific details of Meridian Water capital receipt assumptions with the Council's capital programme 2024/25 to 2033/34.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	In part this recommendation is already in place as follows: Property disposals: A disposals dashboard is considered at EMTB on a bi-monthly basis. The Cabinet Member for Finance receives regular updates on the key disposals. A report was considered at September Cabinet which sets out progress on the existing disposal programme in detail (confidential appendix 3 which RAG rated the disposal progress). This September Cabinet report also sets out the next phase of "right sizing" the property portfolio. The Overview & Scrutiny Committee have also considered this via a call in, after which the Cabinet will need to reconsider its position and take account of any views made by the OSC. In addition, the quarterly capital monitoring report includes a dashboard of key information including receipts received against the plan (see September 2024). This is enabled by close working relationships between Property and Finance colleagues. The government's capital directive options are already closely monitored, pending the new government advice. Meridian Water Disposals: The Meridian Water disposal assumptions are included within the Treasury Management Strategy and are reviewed as part of this process. Officers will amend the format of future papers to make the assumptions on Meridian Water future disposals more explicit. Further enhancements will be put in place in response to this recommendation: A regular schedule of assumptions and progress of disposals will be reported to the Meridian Water Executive Board. Meridian Water disposals risks will be added to the capital programme strategic risk register, which is monitored by Capital Finance Review Panel and Capital Finance Board. A report will be brought to Cabinet to provide a full delivery and operational update on the Meridian Water project.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 4	We recommend the Council provides regular, formal updates, to Cabinet in respect the Meridian Water Optimisation Business Case and overall project delivery. We also recommend the Council seeks opportunities to publish non commercially sensitive information relating to Meridian Water as part of these updates.
Improvement opportunity identified	The Council has an established regime of oversight and governance in place to monitor the Meridian Water project and associated risks. This recommendation seeks to enhance existing arrangements and increase transparency even further.
Summary findings	During 2023/24 the Council made significant decisions relating to Meridian Water with Cabinet approving the Meridian Water Optimisation Business Case Report. In consideration of the significant financial implications of the Meridian Water project, on the Council, regular updates to progress should be provided to Cabinet in addition to the existing oversight and governance arrangements. We also have established that the recent papers relating to Meridian Water, considered by those charged with governance, were not made publicly available as it they contained exempt information as defined in the Local Government Act 1972. The Council could seek opportunities to publish non commercially sensitive information relating to Meridian Water as part of future updates to Cabinet.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Quarterly/Annual - regular updates on the Meridian Water programme are included in the capital quarterly monitoring report. An annual review of the Meridian Water business case optimisation is planned (and has happened for the last two years in spring). The risk register is also considered at the GPC as part of the regular work programme. The Council will continue to publish all information which is not commercially sensitive, as required by the Access to Information Rules.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 5	We recommend the Council updates its Strategic Asset Management Plan (SAMP) non HRA physical assets 2019 – 2024 and ensures alignment to the Council's Strategic Plan 2023-26, the Council planned programme of asset disposals and supports the delivery of the Council's The Council's Climate Action Plan 2024.
Improvement opportunity identified	This will ensure the strategic management of the Council's non HRA physical assets aligns to the delivery of the Council's Strategic Plan 2023-26 and will help inform the Council's planned programme of land and property assets disposals whilst supporting the Council's Climate Action Plan.
Summary findings	The Council's Strategic Asset Management Plan (non HRA physical assets) 2019 – 2024 is required to be updated
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	Recommendation for consideration in future years. A review of the SAMP is not currently planned in the near future. The core principles set out in the SAMP 2018-2024 remain in place and Property are working to these core principles. This will be considered toward the end of 2025.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 6	We recommend the Council further enhances its annual budget setting process by ensuring the Overview and Scrutiny Committee is provided with an opportunity to assess and comment on the Council's draft HRA Budget and Rent Setting Report, ahead of the full Council annual budget setting meeting.
Improvement opportunity identified	The Council has a comprehensive and through budget setting process and this recommendation seeks to further enhance existing arrangements.
Summary findings	The Council's HRA Budget and Rent Setting Report 2024/25 was not considered by the Overview and Scrutiny Committee ahead of the Cabinet meeting of 21 February 2024 and the full Council annual budget setting meeting of 22 February 2024
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The HRA budget will be considered by the Overview and Scrutiny Committee as part of the HRA budget setting cycle. The OSC work programme will be updated to reflect this.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 7	We recommend the Council enhances further its existing budget monitoring and oversight arrangements by: • Including more detailed information in respect of progress made in the delivery of agreed HRA savings within HRA budget monitoring reports. • Providing Overview and Scrutiny Committee with quarterly HRA revenue budget monitoring reports.
Improvement opportunity identified	This recommendation seeks to further enhance existing budget monitoring arrangements.
Summary findings	• The Councils the HRA Forecast Report 2023/24 (30 November 2023) included limited information on the delivery of agreed savings. • 2023/24 HRA revenue budget monitoring reports were considered by Cabinet but not by the Finance and Performance Scrutiny Panel, (responsibilities now subsumed within the Overview and Scrutiny Committee) despite this Panel considering 2023/24 general fund revenue and both general fund and HRA capital monitoring.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation is partially agreed. A 'savings monitor' will be included in the quarterly HRA budget monitoring report to Cabinet. The Overview & Scrutiny Committee already has access to publicly available quarterly HRA budget monitoring reports, and have the option to call the paper in if the Committee if the Committee deems it necessary.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 8	We recommend the Council strengthens its finance team operations by: • Taking proactive measures to reduce the overall vacancy factor within the finance team whilst reducing reliance on interim staff. • Identifying and addressing any skills and capacity gaps within the finance team. • Progressing the intended finance system procurement within a suitable timeframe to ensure the finance system meets the needs of the business.
Improvement opportunity identified	Additional finance resource would provide additional capacity and contingency to the support the financial functions and responsibilities of the Council and a skills and capacity assessment would inform any additional resource or training needs of the finance team. The Council current finance system has been identified as needing improvement and a more optimal system would support effective and efficient finance processes and reduce risk.
Summary findings	This Council has introduced significant changes to finance team structure however vacant posts remain and in responding to these vacancies the Council should also consider if other skills and capacity gaps are present within the wider finance team. The Council has identified that its finance system requires to be changed or improved however a specific procurement process is yet to commence.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The recommendation is agreed. There are 6 interim staff members in the Corporate Finance Team which has reduced and none in the Capital Finance Team. These roles have been advertised but there are recruitment challenges which is a recognised issue in the sector. There is skills gap in specialised area of Schools Finance as a recognised issue (recruitment is being progressed). A more general skills review can be undertaken at a future date, once the new Section 151 is in place. April 2025 - There is a solution under consideration for the existing out of date ERP. This is expected to be considered at EMTB within the next 6 months. This solution will need to be balanced with risk within our current system with the affordability constraints and organisational capacity to implement major change in the context of back-office reductions to meet our budget challenges.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management and internal controls

The draft Annual Governance Statement (AGS) for 2023/24 states *'The Council's Risk Management Strategy governs the corporate approach to risk management. It is supported by a comprehensive Performance Management Framework, and an annual Internal Audit Plan seeking to address areas of key risk on the Corporate Risk Register. The Corporate Risk Register has been reviewed and now adopts the 13 categories of risk recommended in the Government's 'Orange Book'. The risk register was agreed by the General Purposes Committee on 31 January 2024. The Council's Risk Management Strategy is also currently under review and will soon be reported to the Council's Assurance Board and to the General Purposes Committee for endorsement'.*

The Council has a Risk Management Strategy 2022/23, at the time of our reporting this was yet to be updated and submitted to GPC for approval. The Risk Management Strategy 2022/23 states that its aim is to provide a high-level framework and details of good practice that can help manage risks whilst also allowing flexibility for teams, managers and individuals to adapt as necessary. The strategy outlines the Council's risk maturity level, defined roles and responsibilities within the Council relating to risk, describes how risks are identified, provides a risk scoring matrix (the Council use a 5x5 scoring matrix) and sets out the Council's risk appetite. The appetite is defined as *'The Council is willing to accept risks with a score below 8. Risks with a score of 9-15 will be accepted if mitigations are put in place. Any risk with a score above 16 is beyond the current risk appetite and requires implementation of mitigating actions and escalation to at least one management level above'.*

The strategy refers to a risk management working group. The risk management working group provides a forum for risk management issues to be discussed and disseminated to all areas of the Council which in principle is good practice. The group terms of reference are unclear as to who sits on this group but do state the group should meet 4 times a year.

The Council maintains a corporate risk register, this was last publicly reported to GPC in March 2023. The risk register included 19 strategic risks. Coverage was generally appropriate, but we would question why the financial risks related to the DSG deficit are not included in the Corporate Risk Register (we have raised this issue separately as part of our work on financial sustainability). The number of risks is at the higher end of what we would consider reasonable to allow suitable focus on the key risks facing the organisation. The risk register shows the risk, original and current risk score, causes and impact of risk, mitigating actions and planned actions as well as the lead department. Risks are red, amber and green (RAG) rated. It does not show a target risk score, an individual risk owner and the direction of travel, although direction of travel is shown in a separate table. Strategic risks are not mapped to strategic priorities. Risks rated red included financial resilience, income maximisation, customer demand, digital technology, major incident, housing, regeneration and growth, staffing and financial management. We note some risks have the same original risk score as the current risk score meaning mitigating actions are not reducing these risks. A further corporate risk register has been reported to GPC in January 2024. This was as a part 2 paper meaning it was not open to public scrutiny. We consider that for the management of corporate risks to be transparent these papers need to be part of the public papers when possible and deemed appropriate by the Council. We recommend the Council should consider the following enhancements to its risk management processes:

- Report the corporate risk register to the GPC on a quarterly basis and to Cabinet alongside financial and performance reports information. The corporate risk register should be reported as part of the public part of the agenda, where possible and deemed appropriate by the Council.
- Arrange for the formal adoption of the draft Risk Management Strategy 2024/25 and develop guidance and training for staff in risk management matters to embed the requirements of the strategy.
- Clarify the terms of reference for the Risk Management Group.

As part of the review of risk registers, the Council may wish to consider the enhancements to the risk register, such as target risk score or planned additional action required to mitigate the risk and mapping the risks to the Council's corporate objectives.

Please refer to Improvement Recommendation 9 on page 53.

Governance (continued)

Risk management and internal controls (Cont'd)

The 2023/24 Internal Audit Charter and Plan was presented to and agreed by GPC in March 2023.

The plan is for 795 days and included 49 reviews covering 16 of the 19 corporate risks. We deem this reasonable coverage. Audits are mapped to corporate risks and corporate priority which is good practice. Changes to the audit plan are taken to the Council's internal Assurance Board for approval and then to GPC.

Internal Audit progress against the agreed audit plan has been reported to the GPC in October 2023 and March 2024. No further updates have been provided.

The Committee terms of reference state that there should be "regular" updates on internal audit activity, but this is not further prescribed.

The annual Head of Internal Audit Opinion was presented to GPC in July 2023. This provided a Reasonable assurance opinion. 65 reviews were undertaken against a plan of 71.

The plan is intentionally flexible, and it changed to meet the changing risk profile of the organisation which is good practice.

43 reviews received an audit opinion, of these, 22 received a limited assurance opinion (14 in 2021/22) and no audits received no assurance (2 in 2021/22). The limited assurance reports included payments to residential care providers, governance and management of a specific capital project, recycling and waste contract, income and debt management, general ledger, external audit processes and four schools. Seven reports received substantial assurance compared to one report in 2021/22. Of the limited assurance reports no critical risk recommendations were raised but 31 high risk recommendations were raised.

Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). The PSIAS require an independent peer review to be carried out every 5 years. This was last carried out in January 2020 by CIPFA. In 2022/23 the service performed a self-assessment, and an improvement action plan is in place, which is good practice.

Counter fraud services are provided by internal audit. A counter fraud policy and operating plan 2022/23 and 2023/24 has been provided. The plan indicates a mix of reactive and proactive counter fraud work, and regular updates are provided to GPC, the executive management team and the Assurance Board. An annual activity report for the counter fraud service in 2022/23 was presented to GPC in June 2023.

Counter fraud operations are underpinned by officer and member codes of conduct which form part of the constitution. These are undated so it is unclear when they were last reviewed. The codes of conduct also include sections on rules related to gifts and hospitality and declaration of interests for both officers and members. The is also a whistleblowing policy and an anti- money laundering policy (both dated January 2023).

We have seen no evidence of pervasive and significant weakness in internal controls although it is clear there are areas where controls are not as strong as they could be given the number of limited assurance reports issues. The Head of Internal Audit (HoIA) opinion has been reasonable assurance in 2021/22 and 2022/23. The 2022/23 opinion states 'In arriving at our view that the overall audit opinion for 2022-23 is Reasonable, we have taken into account the fact that we did not issue any no assurance opinions in 2022/23 and there was an increase in Substantial opinions compared to 2021/22'. A clearly prescribed frequency for internal audit progress reports to be consider by GPC would strengthen existing controls. We recommend the GPC Terms of Reference should be updated to state how often internal audit progress should be reported to it. We would suggest that this should be on a quarterly basis.

Please refer to Improvement Recommendation 10 on page 54.

	2023/24	2022/23
Annual Governance Statement (control deficiencies)	The Council is satisfied that appropriate governance arrangements are in place (draft)	The Council is satisfied that appropriate governance arrangements are in place
Head of Internal Audit opinion	Not yet available	Reasonable Assurance

The Council's performance against key governance metrics is set out in the table above.

Governance (continued)

Informed decision - making including GPC

The Council publishes its Constitution on its website. The constitution is a written legal document that guides the Council on its decision-making processes. It provides a basis and framework for the members and officers to work within and sets out how decisions are taken, who has the power to take which decisions and sets out the procedures, codes and protocols to be followed to ensure decisions are made efficiently, transparently and with accountability to local people.

The Constitution is undated, and it is unclear as to when it was last reviewed. The Monitoring Officer stated that a review is scheduled to be presented to Cabinet in May 2024 and that the previous complete review was in 2019, when a review of the whole constitution was undertaken, this was split into two parts, and taken to Council in May 2019 and February 2020, respectively. The Council's scheme of delegation is approved annually at the Annual General Meeting in May. We would recommend that when the constitution is reviewed all sections of the constitution should record the last and next review dates to ensure change control is incorporated.

Please refer to Improvement Recommendation 11 on page 55.

During 2023/24 the Council continued to operate a Cabinet and Council leader model of governance. The Cabinet at the Council consists of 10 members and four associate members. Cabinet met eight times during 2023/24, and the role of the Cabinet is to:

- Deliver services to the public
- Give political direction and guidance to the officer executive
- Improve the Council's performance
- Create and sustain effective partnerships
- Respond to issues raised by the Scrutiny Panels and other Council bodies.
- Develop and consult on policy proposals
- Propose the Council's Budget
- Deliver the Community Plan

The Cabinet is supported by several committees. The Council publishes on its website details of all Cabinet, committee and full Council meetings, and this includes the agendas, minutes and decisions made which enhances transparency and demonstrates reasonable practice.

Oversight of decisions proposed and made, by the Cabinet, during 2023/24 was provided by the Council's Overview and Scrutiny Committee. The Overview and Scrutiny committees met a total of 11 times during 2023/24.

All committee papers are pre-agreed with executive management team, and Executive Directors and the Leader. General Purposes Committee papers are approved by the Assurance Board. Additionally, all reports are reviewed by legal and finance which is good practice.

Review of a sample of committee papers indicate that they are comprehensive and provide members with adequate information to make informed decisions.

We have interviewed all the statutory officers and have seen no evidence of inadequate practice or widespread poor performance. Our review of selected Council papers reveal reasonable transparency.

Governance (continued)

Informed decision-making including GPC (continued)

The GPC acts as the Audit Committee. The GPC consists of nine members plus an independent member – Quorum is three. In 2023/24, the committee had five meetings in line with the constitution. Our review of minutes indicates attendance is adequate.

The GPC Terms of Reference are set out in the Council's Constitution. These state the membership of the committee, the frequency of meetings, the nature of items appearing on agendas, and these are all in line with expectations for a Council.

Review of minutes of the GPC provide evidence of challenge. However, we have seen no evidence of an effectiveness review of the Committee, and this leads to an improvement recommendation. We recommend the Council should ensure the continued effectiveness of the General Purposes Committee by conducting a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology.

Please refer Improvement Recommendation 12 on page 56.

Standards and behaviours

A monitoring officer is in place and was in place throughout 2023/24.

An internal audit on Members' Ethics and Supporting Members was issued in February 2023 with Substantial Assurance. This is an indication of the Council's commitment to ethical behaviour.

In the draft AGS 2023/24, under principal A , describes how the Council 'ensures it is behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law' This includes the constitution, scheme of delegation the appointment of statutory officers and a Head of Internal audit, codes of conduct and the complaints procedure.

We have seen no evidence of significant non-compliance to the constitution from review of selected Cabinet Finance and Performance Scrutiny Panel, Overview and Scrutiny Committee and GPC Papers and the Monitoring Officer was not aware of an issues in this area. We have found no evidence of breaches of legislation or regulatory standards during the financial year nor is there evidence of significant or repeated departure from regulatory or statutory requirements or professional standards during this period.

The Members Code of Conduct within the Constitution which all Members are required to comply with) includes a section on Gifts and Hospitality. We have been informed by the Monitoring Officer that they were subject to informal review two years ago and a formal review is currently being undertaken.

The monitoring of data breaches is the role of the Data Protection Officer. From discussions with officers and review of relevant committee papers we have found no evidence of any significant data breaches during 2023/24. We have seen no corrective actions being required on cases referred to the Information Commissioner Office during 2023/24.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for 2023/24.

However, we have found four opportunities for arrangements to be further enhanced set out on pages 53 to 56.

Improvement recommendations

Improvement Recommendation 9	We recommend the Council should consider the following enhancements to its risk management processes: • Report the Corporate Risk Register to the GPC on a quarterly basis and to Cabinet alongside financial and performance reports information. The corporate risk register should be reported as part of the public part of the agenda, where possible and deemed appropriate by the Council. • Arrange for the formal adoption of the draft Risk Management Strategy 2024/25 and develop guidance and training for staff in risk management matters to embed the requirements of the strategy. • Clarify the terms of reference for the Risk Management Group. As part of the review of risk registers, the Council may wish to consider the enhancements to the risk register, such as a target risk score, planned additional action required to mitigate the risk and mapping the risks to the Council's corporate objectives.
Improvement opportunity identified	Improvements in risk management will assist in the making of appropriate decisions.
Summary findings	The corporate risk register was last publicly reported to General Purposes Committee (GPC) in March 2023. A further risk register has been reported to GPC in January 2024. This was as a part 2 paper meaning it was not open to public scrutiny. The Council has a Risk Management Strategy 2022/23 which requires to be updated and adopted by the GPC. The risk management team will provide one to one training to risk owners but there is no formal programme of risk training. The Risk Management Strategy 2022/23 refers to a risk management working group. The Risk Management Group provides a forum for risk management issues to be discussed and disseminated to all areas of the Council. The group terms of reference are unclear as to who sits on this group. The corporate risk register does not include a target risk score, planned additional action required to mitigate the risk and mapping the risks to the Council's corporate objectives.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation is partially agreed. We agree that the risk register should be reported to the GPC but judge that a report every six months will be sufficient to allow the Committee to ensure that appropriate arrangements are in place for good governance while not blurring the lines between oversight and executive decision making. The Council will continue to publish all information which is not commercially sensitive or otherwise exempt, as required by the Access to Information Rules. It will not publish material which it considers to be commercially sensitive or otherwise exempt. We will arrange for the formal adoption of the draft Risk Management Strategy 2024/25 and will develop guidance and training for staff in risk management matters to embed the requirements of the strategy. We will also clarify the terms of reference for the Risk Management Group, and its membership. As part of our review of risk registers, we will consider enhancements to the risk register, including a target risk score, planned additional action required to mitigate the risk and mapping the risks to the Council's priorities and Council Plan objectives.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 10	We recommend the GPC terms of reference should be updated to state how often internal audit progress should be reported to it. We would suggest that this should be on a quarterly basis.
Improvement opportunity identified	Timely reporting of internal audit progress will allow the Committee to assess progress on the audit plan and consider audit finding promptly.
Summary findings	The GPC terms of reference state that there should be "regular" updates on internal audit activity, but this is not prescribed.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	We do not agree this. Committee terms of reference do not need to specify how frequently it receives reports. It is not considered necessary to provide quarterly updates and 6 monthly reports should suffice.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 11	We recommend that when the Constitution is reviewed all sections of the constitution should record the last and next review dates to ensure change control is incorporated.
Improvement opportunity identified	Providing clarity on when the Constitution has been reviewed will help to ensure that the Constitution is kept up to date.
Summary findings	The Constitution is undated, and it is unclear as to when specific sections were last reviewed.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation is agreed.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 12	The Council should ensure the continued effectiveness of the GPC by conducting a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology.
Improvement opportunity identified	A self-assessment exercise will enable the GPC to evaluate its effectiveness and identify areas for improvement, including any unmet training needs.
Summary findings	CIPFA has produced the publication 'Audit Committees: Practical Guidance for Local Authorities and Police 2022', which deals with the function and operation of Audit Committees and represents best practice for Audit Committees in local authorities throughout the UK. The guidance also includes a self-assessment tool to identify areas of improvement which could be utilised to support the Council to strengthen its governance arrangements.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	This recommendation is agreed.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Use of financial and performance information

The Council has a Corporate Plan 2023 to 2026. The plan outlines 5 priorities:

- Clean and Green Spaces
- Strong, healthy and safe communities
- Thriving children and young people
- More and better homes
- An economy that works for everyone

The priorities are underpinned by a series of principles one of which is 'financial resilience' and under this principle the Council states:

'*we need to 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. To do this, we will plan ahead carefully, making decisions based on evidence of what works, to deliver on the priorities set out in this plan. We will invest in our organisation to become more efficient and effective in what we do, in order to prevent higher costs for the future*'.

These commitments reflect the strategic significance the Council places on providing cost effective and performing services which represents good practice.

The Council has a corporate performance scorecard to demonstrate progress towards achieving the Council's priorities within the Council Plan 2023-26. The corporate scorecard is reviewed by the Council annually. Targets are set based on the previous 3 years' performance, direction of travel, local demand, performance at a regional level, and by considering available resources to deliver services. The Council has explained this scorecard (and associated reports) supports Council in scrutinising, challenging and monitoring progress towards achieving Council's aims.

Performance information is reported quarterly to the Departmental Management Teams (DMT) for each directorate and then to the Executive Management Team (EMT) and Cabinet. During 2023/24 performance has been reported to Cabinet in October 2023 (Quarter 1) and January 2024 (Quarter 2) This is reported alongside financial performance, which gives members a rounded view of Council performance although we do note the Council could consider more timely reporting of performance data to members to ensure any issues are responded to promptly,

The Quarter 2 Performance Report presented to Cabinet on 17 January 2024 included the corporate performance scorecard reflecting performance for the period July – September 2023. The corporate performance scorecard included a range of RAG rated performance and data indicators (assigned to a corporate plan priority) comparative data and supporting narrative. The Quarter 2 Performance Report included 63 RAG rated performance indicators and 43 data only indicators. We would recommend that In order to strengthen the Council's performance management arrangements, consideration should be given to ensuring all performance indicators are SMART (specific, measurable, achievable, realistic, and time-bound) and this is included in a wider improvement recommendation.

Improving economy, efficiency and effectiveness (continued)

Use of finance and performance information (cont'd)

Performance indicators are a mixture of statutory indicators and indicators selected by management at various levels. The Council use various benchmarking tools such as LG Inform and the Council also compares performance across London through various officer groups which is good practice.

The Council does not have a data quality policy. Performance data is reviewed by the Policy and Performance team and is also reviewed by senior officers. To strengthen the Council's performance management arrangements, consideration should be given to developing a data quality policy/strategy and this is included in a wider improvement recommendation. We recommend to strengthen the Council's performance management arrangements even further consideration should be given to:

- Developing a data quality policy/strategy.
- Ensuring all performance indicators are SMART (specific, measurable, achievable, realistic, and time-bound).

Please refer to improvement recommendation 13 on page 63.

Latest OFSTED report on Children's Services from March 2019 grades the service as Good. Recent CQC reports rate services inspected as generally good reports since April 2021 covering residential accommodation and the reablement service.

Assessing performance and identifying improvement

In November 2022, a group of local government peers visited the Council to undertake a Local Government Association (LGA) Corporate Peer Challenge (Peer Review).

The Peer Review covered five core elements of good performance:

1) local priorities and outcomes.

2) organisational and place leadership.

3) governance and culture.

4) financial planning and management.

5) capacity for improvement.

The review produced 10 recommendations for areas where the Council could develop even further. The Council produced an action plan in response to these recommendations to be completed by November 2023. In November 2023, the peer team returned to Enfield Council to review progress made against the recommendations. Overall, the peer team commented the Council had made good progress against the recommendations identified. The progress report also highlighted areas where further work could be undertaken to consolidate achievements. The Council's willingness to participate within a peer led review, and implement resultant development activity, as evidenced the peer review action plan, positively demonstrates the Council willingness to engage in sector led improvement.

The annual complaints report 2022/23 - presented to GPC in October 2023 - highlights during 2022/23, the Council received 1,999 complaints, of which 153 progressed to final stage. Complaint volumes have marginally decreased from the previous year. The average annual complaint response rate was 72% within 10 working against a performance target of 95% within 10 working days, this Key Performance Indicator (KPI) was therefore not achieved.

High volume service areas (100 complaints or more) were Waste Services, Council Housing Repairs and Council Tax. However, both Waste Services and Council Housing Repair complaint volumes decreased compared to the previous year. Waste Services reduced from 661 in 2021/22 to 132 in 2022/23; whilst Council Housing Repairs decreased from 264 in 2021/22 to 199 in 2022/23.

In terms of complaints upheld, Council Tax, Waste Services and Council Housing Repairs are also the highest upheld complaint areas. For Council Tax 25 complaints were upheld. These related to refund delays, charging/liability errors, errors updating account information and liabilities. For Waste Services, 35 complaints were upheld. These related to missed bin collections (including both repeat and one-off missed bin collections), conduct, timing of collections and general service quality. For Council Housing Repairs, 59 complaints were upheld. These related to repair delays, compensation delays, staff conduct, major works and unsatisfactory repairs. None of these seem indicative of serious service failure.

The Local Government and Social Care Ombudsman (LGSCO) received 129 complaints relating to the Council and investigated 28 of these. Both decreased in volume compared to the previous year.

Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement (cont'd)

The LGSCO upheld 22 complaints, a slight increase in upheld rate from the previous year. Of the 22 upheld complaints, the LGSCO recommended improvement actions centred on reviewing policies and procedures as well as providing further training and guidance to officers. The LGSCO annual performance letter noted 100% satisfaction that the Council had implemented these recommendations accordingly.

During 2022/23, there was an increase in complainants escalating requests to the Housing Ombudsman Service (HOS) compared to the previous year. Of the 37 complaints received, HOS chose to investigate 11 of these regarding Council Housing Repairs, anti-social behaviour and tenancy issues. 4 were upheld.

We have been informed that Information in relation to 2023/24 complaints will be reported to GPC in due course.

The annual complaints report was reported to General Purposes Committee in October 2023 for the 2022/23 year indicates corporate and ombudsman complaints are used an organisational learning and improvement tool, which is good practice.

The council is also working with Department for Education as part of Delivering Best Value (DBV) programme to identify ways to reduce costs in education further identifying the Council's willingness to identify areas for improvement.

Partnership working

The Council has variety of arrangements that may be described as partnerships:

- Partnerships where they work together to deliver improvements to the borough but there is no contractual arrangement or financing relationship e.g. Safer Community Strategy Board, or the Health and Well-being Board or the Enfield food alliance (where the Council acts as a convenor of partners). Combatting Drugs and Alcohol Partnership or Mental Health Partnership.

- They sometimes describe some of our key contracting arrangements as "partners" – these may be voluntary sector or commercial partners. e.g. Citizens Advice Bureau , Civica, Greenwich Leisure Limited (running the Boroughs sports centres). Adult Social Care voluntary sector partners, the North London Waste Authority, or where council share cost of services such as the Coroners service (LB Haringey).

- A formal partnership with joint funding arrangements. For example, Montagu 406 Joint Venture where the Council is a 50% stakeholder. Performance on this is reported to Cabinet on a six-monthly basis as part of a review of wider performance of council companies.

The Council does not have a specific Partnership Strategy or a central partnership register. Each service will be responsible for managing the partnership arrangements for their areas of responsibility. We have seen no evidence of outcomes from partnerships being reported to members other than the Council's companies performance report.

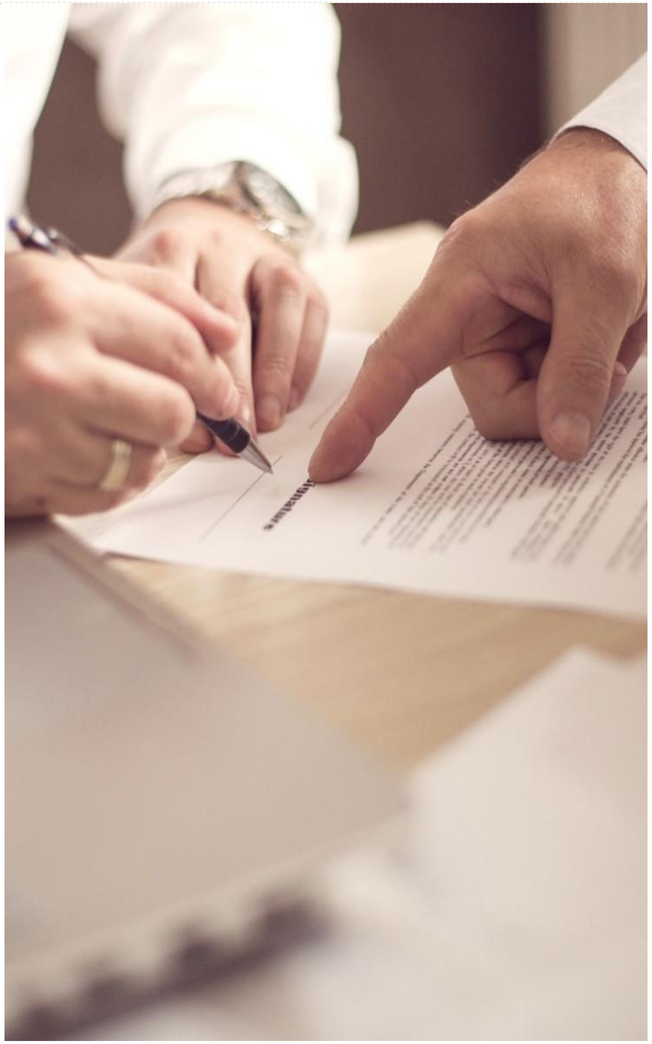
We have seen no evidence of how the Council communicates with key partners or how performance is monitored outside of commercial partnership. While we have found no significant weakness, we believe the Council could enhance its oversight of partnerships arrangements.

We recommend the council should develop a partnership register and partnership policy /strategy and consider reporting activity on key partnerships to an appropriate member forum at least annually.

Please refer to improvement recommendation 14 on page 64.

Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement



As part of our value for money assessments we have only reviewed main elements of the contract management and procurement arrangements in place at the Council. We have not undertaken any work to check compliance with these arrangements through review of specific samples of contracts, procurement exercises or purchase orders. We would also refer to page 2 of this report which further clarifies the scope of our work.

The contract procedure rules, which form part of the Council's constitution, set out the requirement to seek a number of tenders (over the £25k threshold) and to consider the most economically advantageous tender. This takes price into account, alongside quality and social value considerations, but does not require the tender to be awarded to the lowest priced bidder. Contract procedure rules were last updated in July 2020. We understand from the Council these are currently being updated to reflect the 2023 Procurement Act which comes onto force in October 2024.

The Council has a project plan and work streams in place to be ready for go live in line with legislation deadlines of October 2024. Key current workstreams are Governance, Stakeholder Engagement and updating Contract Procedure Rules and the Council's procurement manual. Training will also be provided on the new procedures to key officers.

The Council does not have a current Procurement Strategy however we understand this will also be developed in line with the 2023 Procurement Act implementation.

We recommend that the Council should ensure the planned enhancements to procurement and contact management arrangements are completed in line with agreed timescales to meet the requirements of the 2023 Procurement Act.

Please see Improvement Recommendation 15 on page 65.

The Council's contract register is on the London Tender Portal, for all contracts over £25k value. Other contracts are reported on the Council's procurement webpage under the transparency code.

Large contracts will have a contract manager in place. All contracts will submit a monthly monitoring sheet. The procurement team also undertaken contract audits on management arrangements for these larger contracts. The procurement team has also produced template documents of contract managers to use, provided training and provided a contractor resilience tool. Guidance has been provided to guide departments on the procure, award, live and exit phases of contracts. Procurement will support teams by organising first contract meetings and attending meetings when required.

A report was presented to GPC in June 2023 reveals that four waivers were issued for the period April 2022 to March 2023. This equates to a total contract value of £939,267. This is an increase on the previous year's value of £298,843. Two of these waivers were granted for short term contracts whilst compliant procurements were being carried out. Data for 2023/24 will be reported to GPC in due course. The collation and publication of contract waiver data is good practice.

Improving economy, efficiency and effectiveness (continued)

Assessing and monitoring performance of Council companies

During 2023/24 the Council assessed the performance of it's companies regularly with reports being considered by the Finance and Performance Committee and Cabinet. Council companies include Lee Valley Heat Network Operating Company Limited (t/a Energetik,) ; Housing Gateway Limited (HGL); Enfield Let; Montagu 406 Regeneration LLP (a Joint Venture); and the Meridian Water Estate Management Company. A report on the performance of these bodies was presented to Cabinet in November 2023 and January 2024.

Energetik is a limited liability company which has been set up by the Council to develop, own and operate a series of community energy networks throughout the borough. Energetik recently completed constructing an energy centre near the Meridian Water development. The Council owns 100% of the company shares. A shareholder agreement sets out the remit of the company and the extent of its delegated powers and those matters that the Council reserves for its own decision making. Energetik reports to the Council via various formal channels including:

- Quarterly performance reporting.
- Client' meetings with Council directors.
- Interdependency board meetings.

Housing Gateway Limited (HGL). In February 2014, Cabinet agreed to establish a wholly owned local authority company to acquire and manage properties in the private rented sector, to be used by the Council to discharge its statutory homelessness duties. This was in response to the £3.3m budget pressure facing temporary accommodation in 2014/15, which was predicted to rise to up to £7.8 million if no action was taken. The local authority company – Housing Gateway Limited (HGL) was established in March 2014 and is responsible for the identification of properties; property acquisition; undertaking any necessary renovation to bring the properties up to the required lettings standard and ongoing property management. HGL has a board of Directors who report to the sole shareholder, the Council. The Chair of the HGL board is a Council appointed Councillor, In addition, HGL has two committees; Finance and Investment, which govern the company's financial and investment decisions. The operational business is reported on the board of Directors via regular board meetings and the Shareholder via a quarterly report. **Enfield Let.** Established in 2020, Enfield Let is a division of Housing Gateway Limited (HGL). Enfield Let's financial affairs are consolidated within HGL's finances. Enfield Let deals with letting accommodation to Borough residents and works collaboratively with the Council to tackle temporary accommodation. Enfield Let is the ethical lettings division of HGL, therefore subject to the same governance processes as HGL.

Montagu 406 Regeneration LLP. Established in 2018 with the Council participating in a 50:50 joint venture with Henry Boot Developments Ltd ('HBD') via an LLP to redevelop the Montagu industrial estate for the regeneration purposes, as well as increasing the quality and value of the site. The Montagu 406 LLP Board meets on a Quarterly basis with 2 Board Members from HBD and 2 Board Members from the Council. This Board takes all major and strategic decisions. A senior Council officer and a Councillor are members of the LLP Board. Montagu Operational Board meetings take place monthly and makes all decisions of an operational nature and implements LLP Board decisions. The Council has a Financial Governance Monthly Call with HBD to discuss any Management Accounts issues which include Forecasting and Budgeting. Further Internal Governance is provided via reporting on the Montagu LLP to the Property Board and risks are also reported to the Assurance Board.

Meridian Water Estate Management Company Limited (MWEMC) a wholly owned Council company was on 8th December 2021. The primary purpose of the company is to set up a framework for the procurement and provision of services to residents of Meridian 1 and 2 and future phases. Services include highway and grounds maintenance, waste, and utilities. These services would be provided by external contractors with some from the Council, to private as well as HRA tenants with MWEMC co-ordinating the provision of these services, collection of service charges, establishing sinking funds and managing payments to the Council and contractors. The Meridian Water Estate Management Governance Board is responsible for oversight of all MWEMC activities. A review of the terms of reference is in progress and will be reported to the Council during 2024/25.

Our work has established the Council has in place arrangements to assess and monitor performance of it companies. The Council, during 2023/24, have made significant decisions in relation to the companies it owns in consideration of the rapidly changing economic environment, the Council's overall financial position and risk appetite. This demonstrates agile decision making; however, these changes do have financial implications for the Council which will require enhanced monitoring, oversight and governance. Within the financial sustainability section of this report, we have identified a key recommendation in respect of Energetik. We have also raised an improvement recommendation in respect of the Meridian Water development, but this does not directly relate to MWEMC.

Improving economy, efficiency and effectiveness (continued)

Capital programme monitoring

As we have identified in the financial sustainability section of this report the Council has significantly adjusted it capital programme during 2023/24, introduced new affordability metrics and right sized the entire capital programme to support the overall financial sustainability of the Council and to ensure value for money is secured. Alongside this the Council has fundamentally reviewed how it monitors the Capital Programme to ensure optimal financial delivery.

During 2023/24 the Council introduced two separate group to monitor the capital programme:

Capital Finance Board – led by Council directors who meet each quarter to provide strategic oversight and direction over the entire capital programme and its development.

Capital Finance Review Panel – led by senior finance officers, who meet quarterly and conduct a risk-based review of projects and the panel will liaise closely with relevant capital programme project leads which supports effective appraisal of individual projects. The Capital Finance Review Panel also provides due diligence and consultation on potential new projects prior to Executive Management Team and member approval.

The Executive Management Team meets weekly, and these meetings include discussions and monitoring of the overall capital programme, any escalations from the Capital Finance Board or Capital Finance Review Panel, requests for new projects and matters relating to the strategic development of the capital programme. Additionally capital programme monitoring is reported to the Cabinet Member Finance regularly, and formally to Cabinet on a quarterly basis.

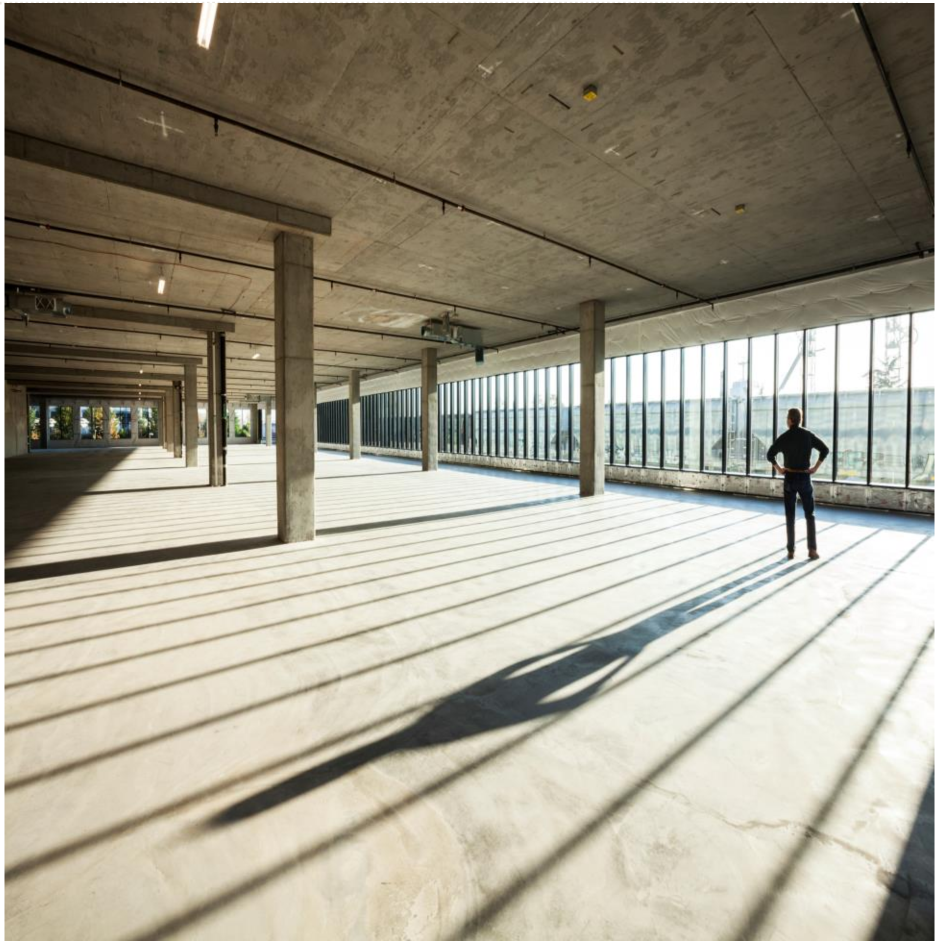
The Council has provided us with evidence of further planned activity to further optimise the delivery and governance of the capital programme during 2024/25 which demonstrates the Council's commitment to continued improvement.

The Council during 2023/24 has introduced fundamental changes to the actual capital programme and also further developed the Council's oversight, governance and monitoring arrangements of its significant capital activity which demonstrates good practice.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness in 2023/24.

However, we have found opportunities for arrangements to be further enhanced, and we have made three improvement recommendations set out on pages 63 to 65.



Improvement recommendations

Improvement Recommendation 13	We recommend to strengthen the Council's performance management arrangements even further consideration should be given to: - developing a data quality policy/strategy. - ensuring all performance indicators are SMART (specific, measurable, achievable, realistic, and time-bound).
Improvement opportunity identified	This recommendation seeks to enhance existing arrangements.
Summary findings	The Council does not have a data quality policy/strategy to support and validate performance data provision. The Quarter 2 Performance Report presented to Cabinet on 17 January 2024 included 63 RAG rated indicators and 43 data only indicators which did not have a RAG rating. Without SMART targets it is difficult to assess whether performance is good or requires improvement in these areas.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Corporate performance indicators have a measurable target wherever that was judged to be appropriate and useful. We will give further consideration to the development of a data quality policy / strategy once the new Executive Director Resources is in post.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 14	We recommend the council should develop a partnership register and partnership policy /strategy and consider reporting activity on key partnerships to an appropriate member forum at least annually.
Improvement opportunity identified	This recommedaiton seeks to support the Council's partnership activity.
Summary findings	The Council has variety of arrangements that may be described as partnerships. The Council does not have a specific Partnership Strategy or a central partnership register. Each service will be responsible for managing the partnership arrangements for their areas of responsibility.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	All commercial partnerships are monitored via commercial arrangements (eg contracts). Non-commercial partnerships are monitored via Service Plans and delivery of the Council Plan where they help to deliver improvements to the borough.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Improvement Recommendation 15	The Council should ensure the planned enhancements to procurement and contact management arrangements are completed in line with agreed timescales to meet the requirements of the 2023 Procurement Act.
Improvement opportunity identified	Implementation of agreed changes to procurement practices will help ensure compliance with relevant legislation
Summary findings	The Council is currently developing planned enhancements to procurement practices, in line with new legislative requirement but these are yet to be implemented.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Already in progress. EMT have already received regular updates on the these changes and a project plan is already in place. The required constitution amends have been considered at GPC on 24th July in advance of Council in November 2024.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We are yet to issue an audit opinion on the Council's financial statements for 2023/24.

Timescale for the audit of the financial statements

Our 2023/24 work is underway, and the Indicative Audit Plan was considered by General Purposes Committee on 26 June 2024.

Other reporting requirements

Other opinion/key findings

We are yet to issue an audit opinion on the Council's financial statements for 2023/24. Our 2023/24 work is underway, and the Indicative Audit Plan was considered by General Purposes Committee on 26 June 2024.

Audit Findings Report

We are yet to issue an audit opinion on the Council's financial statements for 2023/24. Our 2023/24 work is underway, and the Indicative Audit Plan was considered by General Purposes Committee on 26 June 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

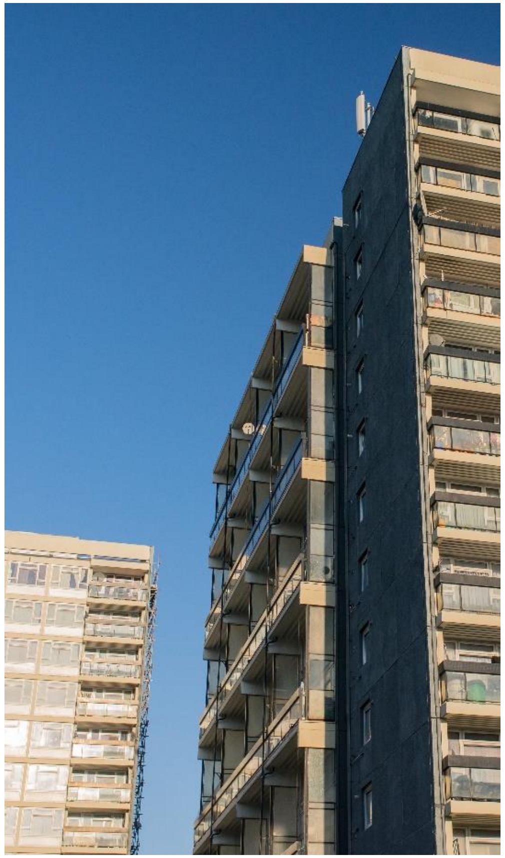
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	6 – 11
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	41 - 48 53 – 56 63 - 65

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