

London Borough of Enfield

Cabinet

15 July 2020

Subject: Medium Term Financial Strategy 2021/22 to 2025/26
Cabinet Member: Cllr Maguire
Executive Director: Fay Hammond

Key Decision: 5150

Purpose of Report

1. To set out the how the Council will allocate its resources over the medium term to deliver the Council's objectives during a period of both huge uncertainty and financial Challenge.

Proposal(s)

2. It is proposed Cabinet:
 - i. Endorses the Medium Term Financial Strategy
 - ii. Actively lobbies Government to bring forward Fair Funding and the Business Rates reset
 - iii. Actively lobbies Government to reform Adult Social Care funding.
 - iv. Promotes engagement in the 2021 Census
 - v. Notes to funding gap of £18.613m for 2021/22 and of £58.594m across the five year medium term.
 - vi. Notes the current shortfall in funding from Government to meet the financial cost to the Council of responding to the Covid-19 crisis and continues to lobby Government to meet these costs in full.
 - vii. Delegate authority to the Leader in consultation with the relevant portfolio holder to approve in year savings ahead of the September meeting of Cabinet.
 - viii. Instructs the Acting Executive Director of Resources to bring a report to the September meeting of Cabinet providing an update on the 2020/21 financial year.
 - ix. Agrees the approach to develop savings and income generation proposals across the medium term.
 - x. Notes the need for scenario planning and identification of savings options for best, moderate and worst case positions and the potential for significant service reductions should further government support fail to materialise.

Reason for Proposal(s)

3. To ensure the Council meets its statutory duty to set a balanced budget in February 2021.

Relevance to the Council's Corporate Plan

4. The Medium Term Financial Strategy sets out how the Council will best use its limited resources to deliver the Council's objectives.

Background

5. Council agreed a five year Medium Term Financial Plan covering the period 2020/21 to 2024/25 at Council in February. This report updates the assumptions from that time and sets out the Strategy for agreeing the 2021/22 Budget and MTFP for 2021/22 to 2025/26.

Main Considerations for the Council

6. The Strategy is set out in twelve sections and the key elements of the individual sections are considered below:

Corporate Plan

7. The MTFP exists to direct resources to deliver the Council's Corporate Plan, which is the opening section of the Strategy, setting out the three objectives to:
 - Good homes in well-connected neighbourhoods
 - Safe, healthy and confident neighbourhoods; and
 - An economy that works for everyone.
8. These are underpinned by essential characteristics of a modern council required to deliver the objective.
9. The strategy also draws on the importance of two other strategies/objectives for the Council – delivering the recommendation of the Poverty Commission and meeting the challenges of climate change.

10. Financial Strategy

11. After a ten year period of austerity the financial strategy focuses on the need for the Council to become ever more self-sustaining – key to this will be to increase in housing in the Borough driving up Council Tax and through supporting and stimulating economic growth and Business Rates along with the many other benefits of economic growth. Further with no prospect of increased grant support from Government, rate increases in Council Tax will be necessary to in part offset inflationary pressures faced by the Council.
12. This needs to be matched by cultures of strong Value for Money and financial ownership throughout the Council alongside robust and sustainable finances and strong financial management.
13. There is also need for Government reform of the framework for funding local government – the Fair Funding implementation and Business Rates Reset have been continually delayed and the Council needs to lobby for both to come forward as soon as possible. There's similar delay to the reform of Adult Social Care funding with a series of one off interventions in recent years and the date for the promised Green Paper put back on

numerous occasions. The Council needs to push for proposals to come forward. Finally, all of these systems need robust data and it is important that there is comprehensive promotion of the 2021 Census to ensure the maximum possible engagement.

14. Economy/Borough Profile

15. The third and fourth sections of the strategy cover the context in which the Council operates – the global and UK economy and the specific characteristic and challenges of the Borough.

16. There is a worldwide recession which is the most severe in over 300 years. This will have a significant impact on unemployment and demand for Council services.

17. Enfield is an outer London borough it has many of the characteristics of an inner London one. There are high levels of deprivation and economic inactivity coupled with low average earnings. This is exacerbated by the impact of insufficient private sector housing. These characteristics don't exist throughout the Borough with inequality between the east and west. Also of note is the challenge of Youth violence at a level out of kilter with other outer London boroughs.

18. Update of MTFP assumptions.

19. The MTFP agreed at Council was balanced for 2020/21 with a gap of £13.265m in 2022/21 and £57.111m across the 2020/21 to 2024/25 period. The Plan is being rolled forward to cover 2025/26 and the assumptions being reviewed. On the positive side the Council's outturn reported elsewhere on this agenda is broadly in line with Quarter Three forecasting on which the budget was based meaning the spend proposals were robust. However the Covid-19 pandemic changes the situation dramatically, creating both significant financial challenge and uncertainty in equal measure. Most challenging is the forecasting of the tax base for both Council Tax and Business Rates. **A best case assumption has been drawn which opens the year one gap to £18.613 and with the rolling forward of the Plan to 2025/26 there is a five year gap of £58.594m.**

20. The level of uncertainty is unprecedented and consequently there is a need to develop in year savings for 2020/21 which will come forward in September along with early MTFP proposals. Further, the refresh is very much the best case and the Council will need to plan on the basis of a deeper and longer lasting impact of the crisis.

21. In year savings.

22. Services are in the process of identifying in year savings in the likely event that Government does not fully cover all of the financial impact of the Council's response to the crisis. Currently, there is only Government grant of £17.9m to meet the initial forecast cost of £68m. There are mitigations in reduced capital financing costs of £2m and one of use of reserves of £3m but this still leaves the Council £45m short.

23. MTFP Approach

24. Work on the MTFP has already commenced with detailed spend analysis and benchmarking underway. Workshops are being scheduled over late June and early July across six themes:

- i. Demand Management
 - ii. Capital Financing
 - iii. Channel shift/Use of CRM/Web
 - iv. Commercial
 - v. Property
 - vi. Organisation Structure
25. Each of these is led by a director and will give rise to savings and income generation proposals later in the summer. Some of these will come to Cabinet in September for early delivery.
26. There is a little scope for investment and reallocation of resources but there will be a focus to ensure that savings and income generation proposals don't adversely impact on poverty in the Borough or on those who are most vulnerable. Similar applies to meeting the objectives of the Climate Strategy.
27. Scenario Planning
28. Work is also taking place on a Plan B with actions being considered against three scenarios for a range of shortfall in Government funding and longer term impact on income streams arising from the Covid-19 crisis. These would inevitably lead to severe service reductions.
29. Timetable
30. The Strategy includes a summary timetable with the draft MTFP and other financial plans to reports to Cabinet in December and then Council in February as well as the early recommendation in September.
31. Delivery
32. There is a strong financial management regime in place and current approaches will be maintained. The Finance Team are reviewing processes, procedures and systems along with documentation and training provision for services to strengthen yet further.

Safeguarding Implications

33. None arising directly from the report.

Public Health Implications

34. The Council needs to make financial savings will have a negative impact upon the health of the population. Some mitigation may be achieved through encouragement and facilitation of behaviours that are both health enhancing and cost-saving such as active transport but the overall effect of the ongoing need to reduce expenditure is likely to be deleterious to health.

Equalities Impact of the Proposal

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

36. The Council aims to serve the whole borough fairly, tackle inequality and protect vulnerable people. The Council will promote equality of access and opportunity for those in our communities from the protected characteristic groups or those disadvantaged through socio-economic conditions.
37. Through the use of Equality Impact Assessments, the Council can analyse and identify where and how proposed changes to services, policies and budgets could improve its ability to serve all members of the community fairly. It helps ensure that the Council does not discriminate, and in taking decisions that it does not unduly or disproportionately affect some groups more than others. The Council also recognises that undertaking full assessments will help to improve the efficiency and effectiveness of the Council by ensuring that residents and service users' needs are met through the delivery of the Council aims and objectives.
38. The Council's budget is not subject to a single Equality Impact Assessment, as it is far too complex for this approach. Instead, budget proposals requiring change or new services and policies will be required to carry out an Equality Impact Assessment to evaluate how the proposal will impact on all parts of the community. The impact assessment must include consultation with affected people and organisations. Heads of Service will have to identify what actions will be taken to mitigate against the worst adverse impacts at the end of their EQIA. The Corporate Equalities Group will be providing advice and support to Departments in developing appropriate EQIAs.

Environmental and Climate Change Considerations

39. The Strategy is driven by the Climate Change Action Plan as well as the corporate Plan and Poverty and Inequality Commission, so environmental and climate change will be key considerations in the planning process.

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

40. The report and Strategy set out in detail the uncertainties and risk that exist at this time.

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

41. The Council is operating in a very uncertain and quickly changing environment and therefore a key action will be detailed and regular financial monitoring and a frequent and regular refresh of the financial assumptions in the Strategy.

Financial Implications

42. Set out above.

Legal Implications

43. Local authorities are required to set their budgets before 11 March each year, in advance of the start of the new financial year on 1 April. Local authorities in England and Wales are required to set a balanced budget for each financial year, following a specific process. They must calculate "the expenditure which the authority estimates it will incur in the year in performing its functions"; and then they must subtract "the sums which it estimates will be payable for the year into its general fund", not including business rates, revenue support grant or other grant funding. This provides

their 'budget requirement' for the financial year in question. They must then subtract forecast grant and rate funds and divide by the council tax base (the number of properties in their area) to arrive at the level of council tax that they must charge. These provisions have the effect of obliging a local authority to set a balanced budget, by providing that its forecast expenditure must align with its income. 'Income' may include transfers from the authority's reserves, but this must be specified in the calculations. The provisions also prevent a local authority from borrowing money to cover its annual revenue expenditure. Local authorities may borrow funds for periods longer than one year, but only for capital expenditure.

44. Local authorities are required to undergo an annual external audit. This is governed by the 'local audit' regime. Local auditors must provide an opinion on a local authority's accounts, and also a conclusion on value for money. To this end, the auditor has various powers to ensure appropriate financial management. They may investigate items in the authority's account at the request of an elector; they may apply to the court to have an item of expenditure declared unlawful; they may make a statutory recommendation which is copied to the Secretary of State; and they may make a 'public interest report' on matters of concern within a council's accounts.
45. Local authorities must also maintain a system of internal audit, as required by the Accounts and Audit Regulations 2015. These "require that elected members maintain a sound system of internal control including arrangements for the management of risk, an effective internal audit, and that local authorities prepare annual accounts".
46. Each local authority's chief finance officer (the 'section 151 officer') has statutory status and is responsible for financial administration. The chief finance officer has a number of duties related to financial resilience, including a duty under section 25 of the Local Government Act 2003 to report on the robustness of the council's budget estimates and the adequacy of its reserves.
47. The chief finance officer is also under a statutory duty to issue a formal report if s/he believes that the council is unable to set or maintain a balanced budget. This is often known as a 'section 114 report', after section 114 of the Local Government Finance Act 1988.
48. Members are obliged to take into account all relevant considerations and disregard all irrelevant considerations in seeking to ensure that the Council acts lawfully. Members should note that where a service is provided pursuant to a statutory duty, the Council cannot fail to discharge it properly.
49. This report provides a clear and concise view of future sustainability and the decisions that need to be made for the recommended actions.
50. When considering its approach to the Medium Term Financial Strategy set out in this report, the Council must have 'due regard' to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty).

Workforce Implications

51. None arising directly from the report, but Organisation Structure is one of the six budget themes. Any implications would be set out in subsequent reports.
52. HR should be engaged in relation to any proposals to change organisation structure or posts. The Council's Principles of Managing Restructures should be followed in relation to any proposed changes.

Property Implications

53. None arising directly from the report, but Property is one of the six budget themes. Any implications would be set out in subsequent reports.

Other Implications

54. None.

Options Considered

55. None.

Conclusions

56. The financial challenges are as great as at any point in recent times and throughout ten years of Government austerity. There is a clear framework in place to identify efficiencies and income opportunities but the £18.613m is a very significant gap to address. Should Government funding not be forthcoming to address the costs of the crisis in 2020/21 achieving a balance budget will almost certainly have a major impact on service delivery.

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Date of report

1 July 2020

Appendices

Medium Term Financial Strategy 2021/22 to 2025/26

Background Papers

The following documents have been relied on in the preparation of this report:

- i. Corporate Plan
- ii. Enfield Poverty & Inequality Commission
- iii. Climate Change Strategy
- iv. MTFP 2002/21 to 2024/25
- v. Borough Profile
- vi. Asset Management Strategy
- vii. Commercial Strategy