London Borough of Enfield

General Purposes Committee

Meeting Date: 4th March 2021

Subject: Annual Review of Financial Resilience
Cabinet Member: Cllr Mary Maguire
Executive Director: Fay Hammond
Key Decision:

Purpose of Report

1. This report seeks update the Committee on the Council's financial resilience.

Proposal(s)

2. The General Purposes Committee is recommended to note the improved resilience position of the Council from the previous report namely:
    a. Continued delivery of savings
    b. Strengthened reserves
    c. Service-led budgets being contained within budget
3. Note the impact of Covid19 on the Council's financial resilience and the effectiveness of the Council's financial strategy to the challenge
4. Note for 2021/22 the approach for monitoring and mitigating the 2021/22 budget risks.

Reason for Proposal(s)

5. The General Purposes Committee are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management. The Council's financial resilience is a core area of assurance; providing additional scrutiny.

Relevance to the Council Plan

6. Financial resilience and good governance are an underpinning theme to the Council's Corporate Plan. The Council's medium-term financial plan aims to use its limited resources to deliver the Council's objectives:
    a. Good homes in well-connected neighbourhoods
    b. Sustain strong and healthy communities
    c. Build our local economy to create a thriving place

Background

7. The objective of this report is to consider key areas of financial resilience and to provide the General Purposes Committee with assurances that the risks are being fully considered and mitigations are in place to address these. This is an annual report, however, the context to this report is significantly changed in the context of Covid19.

8. In March 2018, the National Audit Office reported on the Financial Sustainability of Local Authorities to the Ministry of Housing, Communities and Local Government. The report concluded that while the sector has done well to manage substantial funding reductions since 2010/11, financial pressure has increased markedly since its last study. Some of the common issues identified were:

    a. Besides funding reductions, there is growth in demand for key services, as well as other cost pressures;

    b. Demand has increased for homelessness services and adult and children's social care;

    c. Councils have tended to protect spending on service areas such as adult and children's social care where they have significant statutory responsibilities; and

    d. A growing number of councils have not managed within their service budgets and have relied on reserves to balance their books, which is not financially sustainable over the medium term.

9. Secondly, CIPFA (the public-sector accounting body) identified a set of indicators called Financial Resilience Index. This is a comparative analytical tool that may be used to support good financial management, providing a common understanding within a council of the financial position. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, the index instead highlights areas where additional scrutiny should take place to provide additional assurance. This data has recently been updated for 2019/20.

    https://www.cipfa.org/services/financial-resilience-index-2021/resilience-index-2021

10. For Enfield the CIPFA financial resilience index shows the key areas of additional scrutiny remains the gross external debt. Although the interest payable, relative to others is deemed a "lower risk". A key mitigation for this risk is the development of a Ten-Year Capital and Treasury Strategy.

11. Since 2018, there has been extensive media coverage of local authorities experiencing severe financial difficulties and, more recently an increased spotlight on "commercial" activities. Northamptonshire and more recently Croydon having issued a Section 114 notice, both Councils have been the subject of special interest reports. Further, following the Covid19 pandemic, "exceptional support" has been agreed through a mixture of grant and capitalisation for four Councils with a further five in conversation with the MHCLG. https://www.lgcplus.com/finance/exceptional-support-councils-promised-96m-by-2022-11-02-2021/

12. The Council seeks to continuously improve governance and financial resilience. Therefore, an independent review of Enfield's financial arrangements has been commissioned to seek both independent assurance and identify lessons learnt from the special interest reports regarding Croydon. The results of this will be reported to Senior Leadership Team early Summer.

13. In 2020/21, additional diligence has been applied to the Council's financial position through the Finance and Performance Panel.

Main Considerations for the Council

14. A focus of the Council's budget strategy has been to deliver a robust and resilient budget. A number of specific actions have been implemented to deliver this strategy namely: changing the approach to the development of savings to ensure ownership and realistic savings are proposed; rebasing the budget where historic savings were unrealisable; building in future demographic and inflationary pressures; development of the ten-year capital programme with implications fully recognised in the budget. Budget challenge sessions were held to target key service overspends.

Revenue Budget

15. In 2020/21, in response to Covid19 a series of specific actions were agreed at the July Cabinet to deliver immediate action which have supported the 2020/21 budget position. Including:
    a. Immediate identification of £6.2m of savings which were removed from service budgets to hold against Covid19 spend;
    b. Maintain spend within the existing budget envelope for key demand areas as far as possible to preserve the £3m contingency
    c. In year review of fees and charges
    d. Review of all capital expenditure
    e. Acceleration of assets that were planned for disposal
    f. Review of all council existing reserves
    g. Delivering the current in year savings and constrain spending to preserve the contingency.
    h. Progressing opportunistic savings such as accelerating plans regarding building reviews and home working.

16. In addition, an HR/Finance Board was set up to increase challenge to all staffing decisions and wherever possible redeployed staff have been used to meet Covid19 additional duties to reduce additional expenditure.

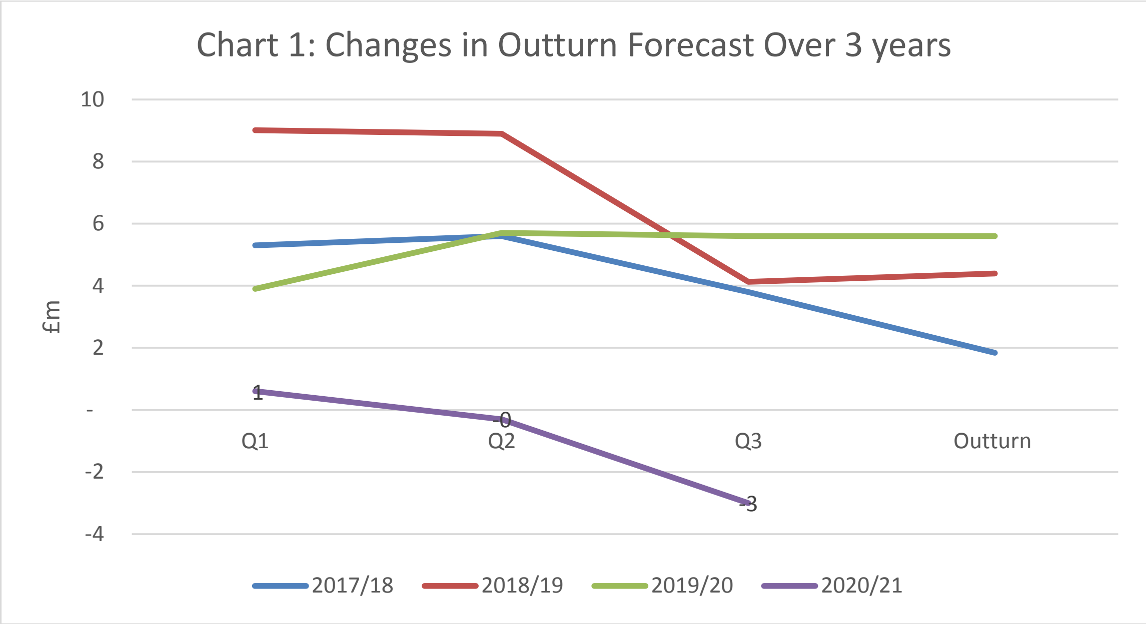
17. During 2020/21, it was imperative that the monitoring reports explicitly set out Covid19 and underlying budget position separately. This supported the ongoing assurance regarding the underlying budget financial resilience. The council has provided monthly returns to the MHCLG and in turn this information has been shared with London Councils. From this benchmarking

information the following information is informative regarding underlying resilience:

	% of total of Covid19		Commentary
	London	Enfield	
Costs of Covid			
Adult Social Care Costs	34%	34%	Adult Social Care impact is on par with the rest of London.
Unrealised savings	13%	6%	This reflects £2.8m of £48.6m total costs, which indicates that despite the pandemic the saving programme is being delivered which contributes to the council financial resilience.
Other	53%	60%	These include Children's Social Care, Housing, Environment & Regulatory services and Finance and Corporate items.
Income losses			
Sales, Fees and Charges	45%	36%	As a % of total income losses
NNDR/Business rates	39%	42%	The impact on Business Rates and Council Tax is like that experienced across London.
Other	16%	21%	This includes Commercial rents, recharges to capital programme, Court costs and Housing Benefit overpayments.

18. The in-year Revenue 2020/21 financial position which at quarter 3 was forecasting an overall underspend position of approximately £1.587m has several elements which evidence of resilience:

    a. The underlying net service budget in year budget position is forecasting a £2.986m favourable position after the flexible use of capital receipts. Chart 1 below plots the current year against the last 3 financial years which demonstrates the progress the council has made.

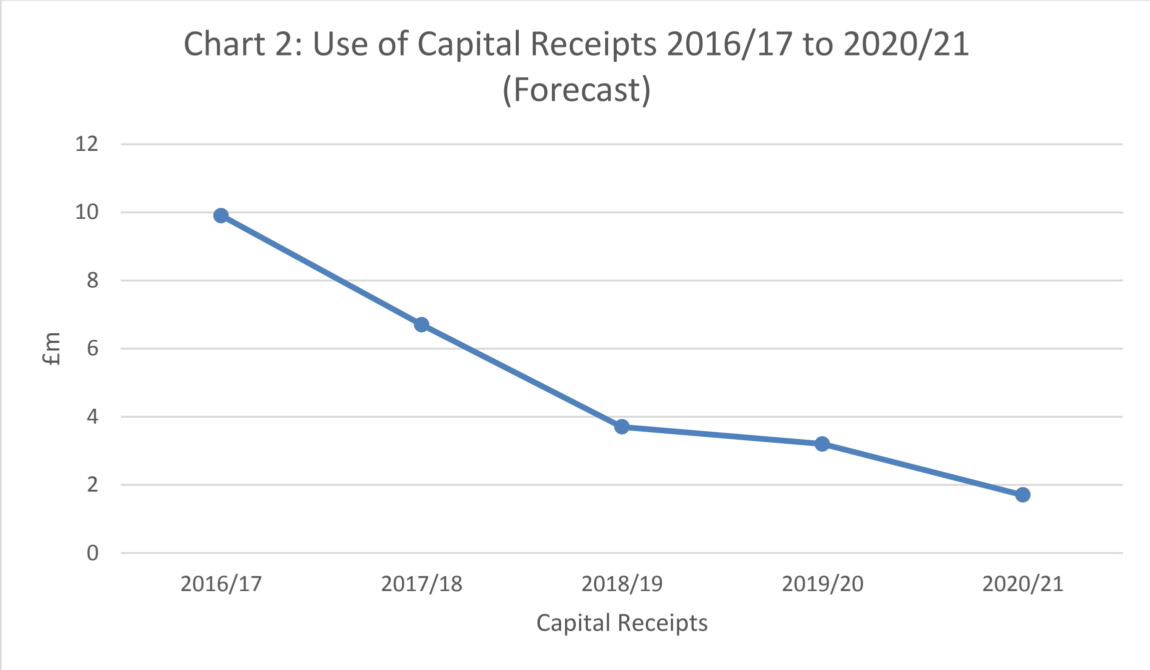


b. A review of Service Specific and earmarked reserves was completed in the last quarter and £10.4m was transferred to replenish the risk reserve. Although the 2020/21 forecast outturn has improved, this remains an important and prudent action given the ongoing financial uncertainty created as the pandemic over the medium term. The Risk Reserve has been further strengthened following the transfer of £3.0m contingency and no longer applying the planned £1.6m use of reserves set out in the 2020/21 budget. At 31 March 2021, the Risk Reserve balance is now forecast to be £22.3m.

c. A risk-based approach to the monitoring of savings is undertaken as part of the monthly budget monitoring. Of the £15.1m departmental savings, £4.2m is expected to be fully delivered at this stage. This consists of £0.5m which have been fully achieved, a further £3.2m which are on track for delivery and £8.3m which have partially achieved or alternative mitigations identified. There are £2.7m rated at red risk status. The red risk ratings are reflected in the forecast outturns for each department and predominantly relate to pressures and delays caused by the pandemic.

19. This improved position is also reflective of the revised approach to the development of savings to ensure ownership and realistic savings are proposed and rebasing the budget where historic savings were unrealisable. This was achieved through the establishment of Pressures Challenge Boards which reviewed the most significant pressures being reported. These were first implemented in 2018/19, continued in 2019/20 and the latest board held in January 2021 reviewing the continuing pressure reported in Culture Services.

20. The reduced dependency on the flexible use of capital receipts further demonstrates how the council has become more financially resilient. Chart 2 below plots the level of capital receipts applied to revenue since 2016/17:



21. For 2021/22 there are several budget risks which are of note in respect of the Council’s financial resilience:
    a. £12.997m of savings/income needs to be delivered in 2021/22, with the ongoing workload pressures of Covid19, delivery of these savings on time will be challenging – in order to monitor/manage this – there will be increased monitoring of savings/income by the Senior Leadership Team and relevant Cabinet Members;
    b. £2.7m of savings that were not realised due to the Covid19 pandemic in 2020/21 also need to be delivered in 2021/22;
    c. The council tax and business rates represents a significant financial risk in the budget; the monitoring on this area will intensify included a specific section in the quarterly monitoring reports on budgeted and actual business rates, council tax, Council Tax Support and collection rates.
    d. The Covid19 expenditure and income continues to be a budget pressure – this will continue to be separately reported in the monitoring reports.
    e. A financial risk dashboard will be presented to Senior Leadership Team which sets out all the key information of risk. In addition to the risks above, a further example is Temporary accommodation savings are ambitious and therefore is one of the specific saving areas of specific risk.
    f. Each year estimates are made on demographic need that drives costs; however, there is a risk that these costs may increase. In order to mitigate this risk, a contingency of £3.0m. If this is not unused, this is used to this would be reported as a favourable variance within the quarterly revenue monitor and if the outturn position is favourable would replenish reserves.

Capital and Borrowing

22. In February 2020 was the first year of the new CIPFA requirement to set out a Capital Strategy. In February 2021, the Capital Strategy has been further developed and a Development Investment Funding Form (DIFF) has also been developed to increase the rigour of assessing Capital Investments. The Capital Finance Board continues monitor capital expenditure, receive updates on specific projects and review all the capital projects set out in the Ten-Year Capital Programme. The affordability of the programme is assured by ensuring that the interest and MRP payments are included in the Medium Term Financial Plan.

23. The risks to the Council's financial resilience in relation to the capital programme and borrowing and the mitigations to this are:

    a. Interest rate rises result in under estimate of interest in the budget – the Council receives regular briefings from professional treasury advisers to inform the estimated interest. In addition, an interest rate risk reserve of £4.663m exists which will support interest rate smoothing as needed;

    b. The interest used in development finance is not robust – all capital programmes investment appraisal uses 3.5% interest rates to build in a level of risk;

    c. Delays to schemes in the capital programme could impact on the level of grant funding, this is mitigated by robust monitoring of the programme reported to Cabinet on a quarterly basis and by the establishment of the Capital Finance Board.

    d. The pandemic has created financial uncertainty for grant awarding bodies e.g. Transport for London, this could impact on the availability of grant funding, which in turn could result in the need to borrow more if the existing level of expenditure are to be maintained.

24. All the schemes in the Capital Programme have been RAG rated and the outcome of which is incorporated into the Capital Finance Boards action plan for the coming year.

25. It should be noted that a comprehensive review on capital and interest rates is a separate item on the agenda.

Reserves

26. The Council's General Fund Balances (excluding schools) stood at £14m as at 31 March 2020. The latest 2020/21 Revenue Monitoring report to Cabinet forecasts an overall underspend position of approximately £1.587m as at the end of December, which will be applied to the Council's Risk Reserve and be used to support the 2021/22 budget together with the £3m contingency.

27. The level of balances is examined each year, along with the level of reserves and contingencies, considering the risks facing the Authority in the medium term.

28. Following a review of service specific reserves during the year, balances that were considered and agreed as available have been transferred to the Risk Reserve to bolster this reserve for future years.

29. Earmarked reserves are held to meet the cost of specific one-off projects or specific risks. Any balance on reserves once the projects are completed or the risk has ceased is returned to General Fund balances. The current level of available usable General Fund specific reserves is forecast to reduce from £76.841m as at 31st March 2021 to £48.549m by 31st March 2026 based on the projects currently planned. The use of reserves will be monitored, and projects revised depending on competing priorities for investment to generate revenue savings.

30. Whilst the £76.841m is termed as usable, there are four elements that have specific commitments against them. These are:

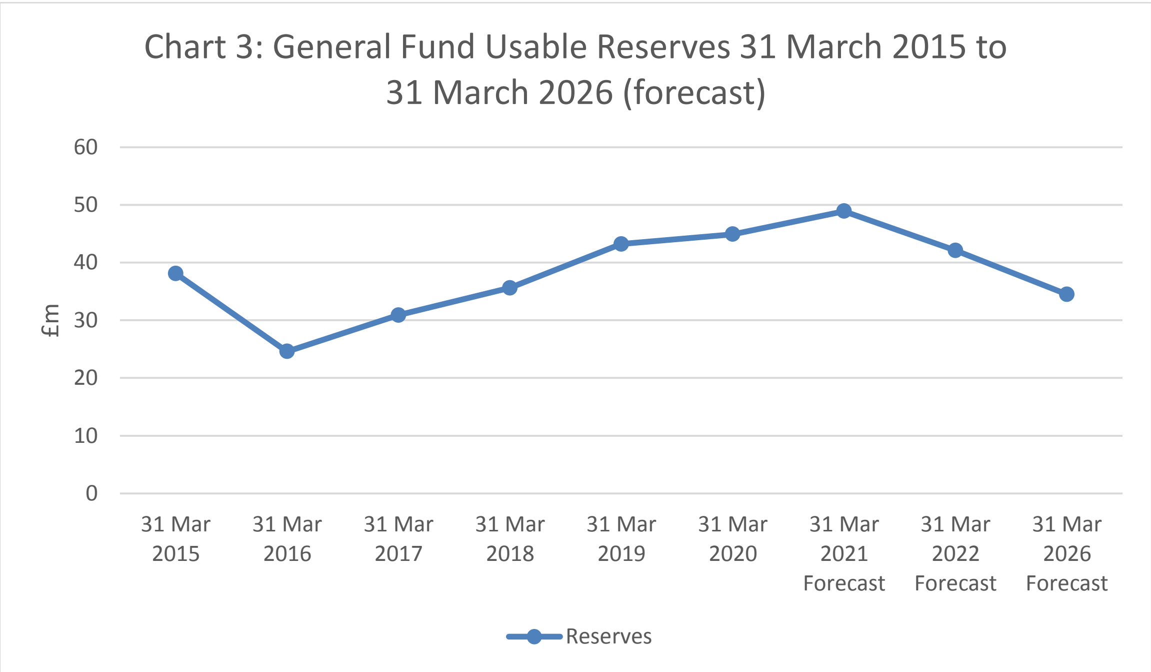
    a. Capital Financing reserves - £20.676m

    b. Insurance reserve - £7.022m

    c. Other grant reserves - £7.275m

    d. General Fund Balances - £13.949m

31. Chart 3 below plots the forecast level of reserves excluding the four elements described above which demonstrates that the level of reserves has been maintained at a relatively stable level over the past 5 years despite the continued financial pressures that the council has experienced.



32. Following consideration of risks, which have been analysed against reserves as presented in the Budget report for 2021/22, maintaining the General Fund balance at £14m is considered appropriate.

Safeguarding Implications

33. There are no specific safeguarding implications arising from this report, other than to note that a robust and resilient budget ensures the protection and delivery of services that are for the borough's vulnerable residents and the safeguarding of children and adults in the borough.

Public Health Implications

34. There are no specific Public Health implications arising from this report.

Equalities Impact of the Proposal

35. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

36. Financial reporting and planning are important in ensuring resources are used to deliver equitable services to all members of the community.

Environmental and Climate Change Considerations

37. None in the context of this report.

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

38. None in the context of this report.

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

39. None in the context of this report.

Financial Implications

40. Financial impact set out in the report.

Legal Implications

41. There are no legal implications arising from this report.

Workforce Implications

42. None in the context of this report.

Property Implications

43. None in the context of this report.

Other Implications

44. None in the context of this report.

Options Considered

45. Not relevant in the context of this report.

Conclusions

46. The Council is continuing to face its most significant financial challenge and there is of course continued uncertainty around the impact of the pandemic and the adverse impact on the additional costs and income losses currently forecast. The end of the Furloughing scheme will undoubtedly see a further rise in unemployment in the Borough with further cost pressure on Council Tax Support and Council services. This is of major concern with the number of working age adults in the Borough claiming unemployment benefits having already increased 162% between January and October this year (from 7,285 to 19,120). When taken into consideration with the levels of reserves this will need continual careful and prudent financial management to ensure the long term sustainability of the Council's finances. However, the strategies described in the report and the work undertaken in previous years to create a robust and sustainable budget has at least put the Council in a strong position.

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Appendices

Appendix A: Forecasted Financial Position as at Quarter 3 2020/21

Appendix B: Movement in Earmarked Reserves 2021/22 & Future use forecast

Background Papers

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

- Revenue Monitoring 2020/21 Quarter 3 (December 2020)
- Budget Report 2021/22 & Medium Term Financial Plan 2021/22 to 2025/26

Forecasted Financial Position as at Quarter 3	**£m**	**£m**
Covid-19 Pressure		73.155
Funding		
Covid-19 Support Grant	(30.894)	
Sales, Fees & Charges support (estimate)	(4.054)	
Infection Control Tranche 1 and 2	(5.011)	
NHS Hospital Discharge funding	(4.500)	
Reopening High Street Safely	(0.296)	
Compliance & Enforcement	(0.207)	
CEV grant	(0.143)	
Self Isolation Payment admin	(0.321)	
Winter Grant scheme	(1.149)	
NSAP Rough sleepers	(1.181)	
Rough sleepers Initiative	(0.120)	
Rapid Testing Fund	(0.599)	
Increase workforce capacity in ASC providers fund	(0.482)	
Test, Track & Trace	(1.582)	
Contain Outbreak Management	(3.338)	
Emergency Assistance Grant – Food & Essential Supplies	(0.426)	
Total Funding		(54.303)
Gap After Funding		18.833
Contingency	0.000	
In year Savings	(6.269)	
		(6.269)
Gap after Council Response		12.583
Q3 Net forecast		(1.421)
Gap		11.162
Funded by:		
Collection Fund Deficit		(12.749)
Gap/ (Contribution to reserves)		(1.587)
Covid-19 Reserve		0.000
Remaining shortfall/(surplus)		(1.587)

MOVEMENT IN EARMARKED RESERVES 2021/22 & FUTURE USE FORECAST

	Balance as at 31.03.20	In year changes 2020/21	Balance as at 31.03.21	Est. use over MTFP period	Balance as at 31.03.26
Risk Reserve	(8.304)	(13.521)	(21.825)	1.927	(19.898)
Covid-19 Reserve	(3.000)	2.567	(0.433)	0.000	(0.433)
Balance Sheet Management	(4.200)	2.200	(2.000)	0.000	(2.000)
MTFP Smoothing Reserves	(14.529)	0.800	(13.729)	9.564	(4.165)
Capital Financing Reserves	(24.254)	3.577	(20.677)	12.483	(8.194)
Service Specific Reserves	(14.251)	5.111	(9.140)	2.332	(6.808)
Property Reserves	(2.125)	0.363	(1.762)	0.547	(1.215)
Other Grants & Contributions	(18.584)	11.309	(7.275)	1.439	(5.836)
General Fund Usable Reserves	**(89.247)**	**12.406**	**(76.841)**	**28.292**	**(48.549)**
Insurance	(7.021)	0.000	(7.021)	0.000	(7.021)
General Fund Balances	(13.950)	0.000	(13.950)	0.000	(13.950)
Total General Fund Reserves and Balances	**(110.218)**	**12.406**	**(97.812)**	**28.292**	**(69.520)**
HRA	(26.943)	0.708	(26.235)	12.599	(13.636)
Schools	7.675	3.410	11.085	0.000	11.085
Grand Total	**(129.486)**	**16.524**	**(112.962)**	**40.891**	**(72.071)**