

## London Borough of Enfield

### General Purposes Committee

1 December 2022

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<b>Subject:</b>	<b>Update on Financial Resilience/Managing the Savings</b>
<b>Cabinet Member:</b>	<b>Cllr Tim Leaver, Cabinet Member for Finance &amp; Procurement</b>
<b>Executive Director:</b>	<b>Fay Hammond, Executive Director for Resources</b>
<b>Key Decision:</b>	<b>No</b>

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### Purpose of Report

1. This report provides an overview to the committee on the Council's Financial Resilience and Managing the Savings.

### Proposal

2. The General Purposes Committee is recommended to:
  - a) Note the journey of financial resilience to the present time
  - b) Note the challenge presented by the current high inflationary environment which is exacerbating our (and the sector's) budget challenge for at least 2022/23 and 2023/24, across revenue and capital
  - c) Note the approach the Council is taking in closing the 2023/24 budget gap
  - d) Note the negative direction of reserve balances, after a period of upward trajectory
  - e) Note the fragile sector wide funding position and changing nature of the challenge, after 2023/24 is balanced.

### Reason for the Proposal

3. 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's Corporate Plan

4. 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

5. Enfield, like other authorities, is facing unprecedented budget pressures in the face of rising inflation and the cost-of-living crisis. Authorities have been operating in a very challenging

financial environment over the last decade, but the scale of the current financial challenges and size of the budget gap currently forecast have never been faced before.

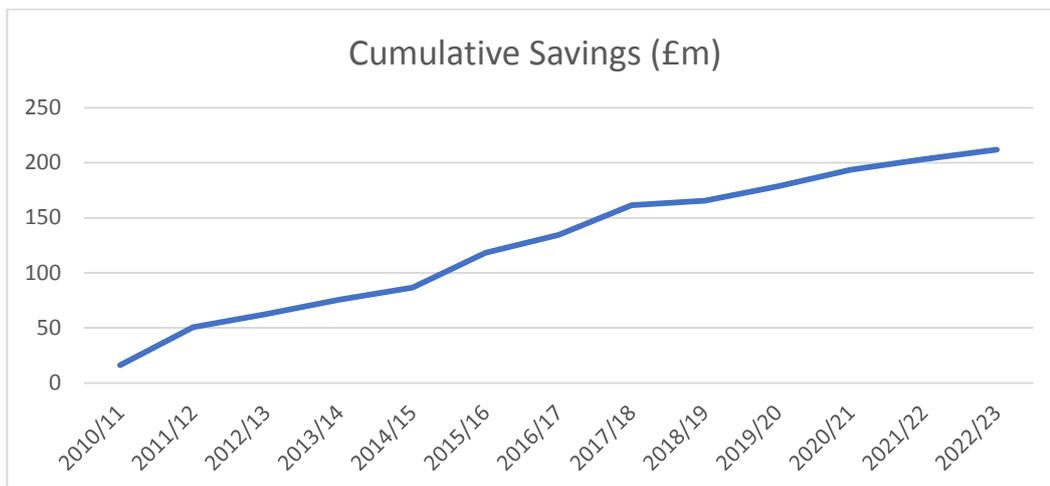
6. Rising inflation and COVID legacy pressures are having a significant impact on Enfield's current financial position. This is further compounded by:
  - a) Impact of austerity and the level of savings that have been delivered by the Council over the last decade
  - b) Demand led pressures across children's and adult social care, and temporary accommodation
  - c) Impact of the higher than expected pay award this year
  - d) Lack of certainty over the potential of any further government funding and as a result a prudent position being factored into projections.
7. Despite these huge budget pressures, Enfield is resolved to facing these challenges head on in setting a balanced, prudent and transparent budget based on the best know information and remains focused on continuing to create a better borough for the well-being of all our communities.
8. In the current environment, financial resilience and sustainability is of utmost importance in order to be able to deliver statutory services and make the difficult decisions needed to balance the budget and continue to remain viable, stable and effective in the medium to long term.
9. This report provides further details on the history, wider financial context as well as an update on the key areas of risk identified for Enfield's resilience and our approach to managing these.

### **History – Enfield's financial position to 2022/23**

10. Local authorities have been operating in a complex and challenging financial environment for over a decade now. Austerity measures throughout this period, combined with the ongoing challenges such as increasing demand and cost pressures as well as the impact of covid-19 have had a significant impact on authority's financial positions and increased the risks to longer term sustainability.

#### Impact of Austerity since 2010/11

11. Local authorities faced ongoing and significant funding reductions in the decade since 2010/11. London Council's confirmed that Council's absorbed £4 billion cut to core funding for local services between 2010 and 2020.
12. In response to these funding cuts, Enfield undertook significant work and difficult decisions were made throughout this period to deliver in excess of £200m cumulative savings since 2010/11. Enfield's cumulative savings since 2010/11 are outlined in the graph below.



### Impact of Covid-19

13. Covid-19 had a further significant impact on the Council's financial position throughout 2020/21 and 2021/22. The Council faced unprecedented financial pressures from the Covid-19 pandemic, which preceded the decade of austerity and savings.
14. The impact of Covid-19 has further skewed local authorities financial positions over this period. CIPFA have highlighted this in their guidance on the use of the 2022 Financial Resilience Index, stating that "The data for 2020/21, however has been significantly impacted by the pandemic, as there have been additional payments made to local authorities in relation to COVID-19, and this has particularly affected reserves. The local context is important to understanding the position for each local authority".

### Focus on Financial Resilience

15. In response to the significant challenges of reduced funding and increased demand that authorities were facing, as well as high-profile issues faced by a number of authorities, the sector has had a strong focus over recent years on the importance of strengthening financial resilience and sustainability.
16. Enfield has also focused on strengthening our financial resilience and financial management arrangements. Considerable work has been undertaken to establish a stable and more resilient position over recent years, with an annual report on resilience considered by the General Purposes Committee.
17. Strengthening reserves has been a core element of the Enfield' financial strategy and focus in recent years. Improvements and areas of ongoing focus to support our financial resilience include:
  - i) Longer term financial planning as part of the Council's five-year Medium Term Financial Plan and ten-year Capital and Treasury Strategy
  - ii) Capital financing and regular assessment of interest rate risk
  - iii) Review of financial viability and affordability of capital projects with a heightened focus on the impact on revenue budgets
  - iv) Use of reserves
  - v) Internal financial governance and challenge arrangement including:
    - (1) Weekly Executive Management Team budget meetings
    - (2) Pressure challenge boards scrutinising revenue budgets
    - (3) Capital Finance Board
    - (4) Assurance Board
    - (5) Financial Improvement Board
18. These actions strengthened our position and ensured that the original 2022/23 budget was set on solid financial foundation. However, the scale of the financial challenges that have

emerged this year and forecast budget gaps over future years are unprecedented, with significant additional risks to our financial resilience and sustainability.

### Enfield Revenue Q1: General Fund and Dedicated Schools Grant 2022/23

19. Enfield's 2022/23 quarter one revenue report was presented to the September 2022 Cabinet meeting. The report outlined the Council's forecast position as at the end of June 2022 in comparison to the original budgeted position for 2022/23.
20. The Council is forecasting a very challenging financial position, with the forecast aggregate overspend for 2022/23 against the base £260m General Fund budget that was agreed in February, prior to the application of any reserves, is £26.6m. Planned use of reserves (including Covid-19 reserve) brings this overspend down to a residual £12.6m. The key themes outlined in the report are:
- Notable inflationary pressures of £7.9m across energy and fuel inflation and estimated pay award costs in excess of those budgeted for
  - £4.7m increase in demographic costs in excess of those budgeted for in adult social care £2.0m; children's services £1.3m; temporary accommodation £1.1m; SEN Transport £0.3m
  - Offset by £3m contingency held for this purpose
  - £2.3m of unrealised income forecast in parking, cemeteries and planning
  - £1.2m of cost pressures in digital services

### Enfield Medium Term Financial Plan (MTFP) – 2023/24 to 2027/28

21. The forecast financial pressures continue into future years, as outlined in the medium-term financial plan update presented to Cabinet in October 2022. This outlined a forecast preliminary budget gap of:
- £40.1m in 2023/24, prior to further actions and clarity on central government funding; and
  - £96.9m gap across the medium term to 2027/28.

22. The breakdown of the budget gap over the MTFP period is outlined in the table below.

Table – Summary of the Budget Gap over the MTFP period

Summary of budget gap	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
Funding Changes	(1.078)	(2.727)	(1.914)	(1.260)	(0.666)	(7.645)
<b>Spending:</b>						
Inflation	19.566	12.987	10.327	10.404	10.483	63.767
Demography	6.788	3.548	3.548	3.548	3.548	20.980
Pressures	17.393	2.960	2.872	2.828	2.903	28.956
Pre-agreed savings	(2.558)	(4.085)	(2.547)	0.000	0.000	(9.190)
<b>Budget gap</b>	<b>40.111</b>	<b>12.683</b>	<b>12.286</b>	<b>15.52</b>	<b>16.268</b>	<b>96.868</b>

### Reasons for the budget gap

23. The material issues as outlined in the update report and broken down in the table below include:
- a) Half the budget gap is attributable to inflation at a level not been experienced in forty years
  - b) Residual impact of Covid-19 on Council costs and subsequent changes to lifestyles effecting income levels.
  - c) Demand led pressures across children's and adults social care, and temporary accommodation persist
  - d) Prudent view of government funding – The Chancellor's budget announcement on 17 November comes just after the finalising of this paper, and it seems unlikely that the local government funding settlement for 2023/24 will see much additional funding going into the sector, beyond perhaps social care.
24. The medium-term position is likely to deteriorate after further analysis, however the immediate focus is on balancing the 2023/24 budget, given its scale.

### Closing the budget gap

25. The scale of the budget gap for 2023/24 is unprecedented. Early savings proposals for 2023/24 were proposed following a review of the future impact of previously agreed savings as well as the bringing forward of new proposals to address the gap. Early savings of £8.334m have been identified, reducing the budget gap to £32m.
26. Work is ongoing to address the remainder of the budget gap, which includes:
- a) Review and challenge of all identified budget pressures, including through budget pressure challenge reviews (done via EMT Budget), to maximise containment within existing budgets
  - b) A second round of savings via deep dive reviews of directorate budgets through November
  - c) Additional controls eg recruitment
  - d) No new financial commitments until budget has been balanced
  - e) Early implementation of 2023/24 savings
  - f) Fundamental service and staffing reviews
  - g) Identification of further mitigations
27. The culmination of this work will feed into the 2023/24 budget update to be considered by Cabinet before the February budget report.

### **Capital Programme**

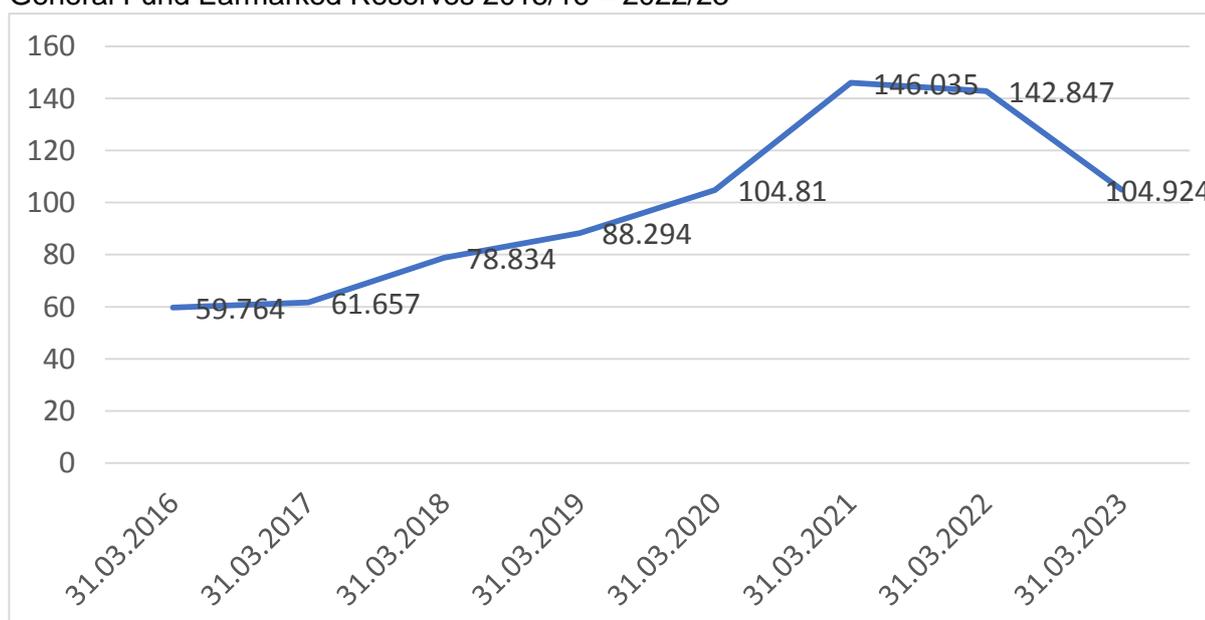
28. In addition to the impact on the Council's revenue position, the delivery of the Capital Programme is also being impacted by global external factors including the aftermath of the Covid19 pandemic, disruption of global supply chains and more recently soaring inflation, increasing interest rates and the economic impact of the war in Ukraine.
29. Work continues to understand the impact on individual project delivery timelines and costs of affected programmes. Where evidence indicates a current year programme will cost more to deliver, options including alternative delivery routes, reduction or pausing of the programme are considered to ensure that programmes remain financially viable and affordable for the Council. All project business cases relying on borrowing are being reviewed to ensure they remain viable and affordable in the new economic environment. Detailed budget envelopes and hurdle rates are two mechanisms ensuring that capital spend remains controlled and affordable.

30. The Quarter 1 Capital Monitoring Report gave examples of projects where inflation had already had an impact on the capital programme (eg reprourement of capital works due to increasing costs). In considering whether projects go ahead, reduce or pause, the Council seeks to take a long term view and balance considerations on prioritisation, affordability, growth for the future, and any potential risks and costs related to delays.
31. The Council's existing debt is on fixed interest rates and therefore not immediately affected by the rise in interest rates. The Council's Treasury Strategy ensures that only a small proportion of the debt matures in any given year, which reduces the impact of high interest rates in any given year (detail is provided in Treasury papers to Council).
32. The revenue impact of capital (interest costs and provision for repaying debt over time) is one measure of the affordability of the capital programme. In the development of the Capital Strategy and Capital Programme for 2023/24, the envelope of revenue budgets will set the envelope of affordable borrowing to finance the capital programme in addition to the Council's existing £2bn borrowing cap.
33. The fact that the Council has a detailed view of the next ten years' capital programme (as reported to Council) facilitates modelling of the medium and longer term revenue impact of the capital programme. Because of the 'lag' in today's capital spend affecting future year revenue, this long term view is essential in managing the Council's financial resilience over the medium and long term.

## Reserves

34. In the years prior to the Covid19 pandemic, the S151 officer set a specific target to increase reserves from the previous base. Whilst there was success in doing this, the flows of funds over Covid19 skewed the position from 2019/20 onwards and continue to have a residual impact, notably around Collection Fund (NNDR and Council Tax) – e.g. funds provided by the Government to help cashflow the sector in 2020/21, which were then repaid the following year, and as a result were recorded in reserves at 31/03/2021.

General Fund Earmarked Reserves 2015/16 – 2022/23



35. The considerable forecast General Fund overspend in 2022/23, referred to above, is having a negative impact on reserves. The table below provides a summary of the forecast reduction in the subset of reserves that we can utilise over the period of the Medium Term Financial Plan (ie excludes some reserves which in reality can't be used), and taking into account the reduction forecast for 2022/23.

Category	March 2022	March 2023 (Forecast)	March 2024 (Forecast)	March 2025 (Forecast)	March 2026 (Forecast)	March 2027 (Forecast)
Risk Reserve	25.9	11.0	10.9	10.9	10.9	10.9
MTFP Smoothing Reserves	40.8	27.8	25.9	25.9	25.9	25.9
Capital Financing	23.4	21.1	16.7	16.7	12.0	9.9
Service Specific	14.8	12.6	11.1	10.0	10.0	10.1
Property	1.4	1.4	1.4	1.4	1.4	1.4
<b>Total</b>	<b>106.3</b>	<b>73.9</b>	<b>66.0</b>	<b>65.0</b>	<b>60.2</b>	<b>58.3</b>

## Outlook

36. It is clear from the scale of the budget gap in 2023/24 plus direction of travel for demand led services (adult social care, children's social care and temporary accommodation, in particular) and likely funding levels that we will have to look fundamentally at how we operate in the coming months. It is possible that the inflationary pressures currently being experienced will dissipate, or at least reduce, in the short term, however the disparity between funding levels and funding need in the local government sector remains, and the short-term damage to balance sheets by wayward inflation has been done.

37. There are now regular media reports on local authority funding crises. London Councils' analysis shows "the energy crisis, soaring inflation, and rising demand for services has put huge additional financial pressures on borough's budgets and opened a wide gap between the funding received and the amount spent on local services. Based on the Government's current funding plans, London boroughs face a gap of up to £400m this year and £700m in 2023-24". "In total, the forecast funding gap for London local government in £2.4bn over the next four years. Although boroughs have worked hard to maintain spending on vital frontline services, this level of financial pressure means extremely difficult decisions will need to be made over future service provision".