City of Westminster

Cabinet

Decision Maker:	Cabinet
Date:	19 February 2024
Classification:	General Release
Title:	Business and Financial Planning 2024/25 to 2026/27
Wards Affected:	All
Cabinet Member:	Councillor David Boothroyd
Key Decision:	Yes
Financial Summary:	This report sets out the Council's medium-term plan for the next four years and proposes the budget for the 2024/25 financial year
Report of:	Gerald Almeroth, Executive Director – Finance and Resources

1. Executive Summary

1.1. This report brings together the Council's business and financial planning and looks forward over the next three years to set out how it will support the Council's objectives under the Fairer Westminster strategy, supported by a medium-term financial plan and balanced budget for 2024/25. Cabinet is asked to consider the report and recommend its adoption to Full Council on 6 March 2024.

1.2. On 22 November 2023 the Government set out its Autumn Statement. The aspects relating to local government funding were a continuation of the Government's 2022 Autumn Statement in that no new funding was announced beyond the known increases that government had previously advised such as the increases in Adults Social Care funding.

1.3. This was followed by the Local Government provisional Finance Settlement on 18 December 2023. The settlement represented an increase in Core Spending Power for local government of almost £4bn or 6.5% in cash terms which includes Government assumption that authorities will take the maximum 5.0% council tax increase for 2024/25.

1.4. After pressure from local government through responses to the settlement consultation, government announced a further £600m support package to help with the unprecedented challenges which the sector is facing. Details of how this additional funding would be allocated was announced as part of the final settlement on 5th February 2024. Overall, this additional funding increases the Core Spending Power across local authorities for 2024/25 to 7.5%.

1.5. This report outlines a balanced budget for 2024/25, but still forecasts a gap of £48m over the following two years. The budget includes a 2.99% increase in the general element of council tax and an increase of 2% for the Adult Social Care precept element. At Band D this will result in an annual increase of £23.85 or an equivalent weekly amount of 46p per week. When combined, the general element of council tax and adult social care precept, for Westminster, will rise from £477.91 to £501.76 at Band D.

1.6. The recommended General Fund budget of £205.545m is a net increase of £11.934m against last year. In broad terms this includes Fairer Westminster investments of £8.5m, service cost and income pressures of £52.5m, additional resources for adult social care of £5.4m, increased capital financing costs of £3m and other changes of £1.5m; offset by net increased government funding of £20m, savings proposals of £20.1m and additional interest earnings of £15.2m. The balance is funded from the increase in council tax income of £3.9m and £11.7m from earmarked reserves.

1.7. Local government is under significant financial pressure with demand for services rising alongside cost pressures caused by persistently high inflation. Whilst funding for the sector has increased for 24/25 as part of the financial settlement, this follows a decade whereby funding has been reduced in real terms, creating sustained financial pressure on local authorities. The cost of living crisis continues to have a significant impact on Westminster residents and businesses and the Council. High prevailing inflation has resulted in ongoing and rising cost pressures for key service areas.

2. Recommendations

2.1. That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 6 March 2024:

Council Tax

1. That the Council Tax for a Band D be agreed at £501.76 for 2024/25

2. That subject to the consideration of the previous recommendation, the council tax for the City of Westminster, excluding the Montpelier Square area and Queen's Park Community Council, for the year ending 31 March 2025, be as specified in the Council Tax Resolution in Appendix 1

3. That the Precepts and Special Expenses be as also specified in Appendix 1 for properties in Montpelier Square and the Queen's Park Community Council

4. That the formal resolution for 2024/25 attached at Appendix 1 including the council tax requirement of £68.889m be agreed

5. Note the proposed Greater London Authority precept (Band D) of £471.40, an increase of £37.26 in the adjusted Band D precept

6. That the Council continues the Westminster Community Contribution scheme to allow residents in the City to voluntarily contribute towards supporting discretionary services that support the three priorities of youth services, helping rough sleepers off the streets and supporting people who are lonely and isolated.

Revenue Budget

7. To note the views of the Scrutiny Budget Task Group set out in Appendix 2

8. That the proposed General Fund net budget requirement of £205.545m summarised in Appendix 3 is approved

9. That the savings, pressures and investments for 2024/25 to 2026/27 set out in Appendix 4, 5 and 6, are approved

10. That the Equality Impact Assessments included in Appendix 7 are noted to inform the consideration of the budget

11. Note the Housing Revenue Account (HRA) Business Plan 2024/25 and 30 Year Housing Investment Plan presented concurrently to Cabinet on 19 February 2024 that recommends the HRA budget and rent levels for 2024/25

Capital Programme

12. Note the Capital Strategy 2024/25 to 2028/29, forecast position for 2023/24 and future years' forecasts summarised up to 2037/38 report also presented to Cabinet on 19 February 2024 that recommends the Council's capital programme and financing

Reserves, Balances and Budget Estimates

13. Agree the reserves policy as set out in section 9

14. Note the opinion of the Section 151 Officer with regards to the robustness of the budget process, the estimates underpinning the budget and the adequacy of the reserves as set out in Appendix 8 as required by S25 of the Local Government Act 2003

Treasury Management and Investment Framework

15. Note the Treasury Management Strategy for 2024/25 including the annual investment strategy, borrowing limits and prudential indicators summarised in this report and set out detail in a concurrent report on this agenda.

16. Note the 2024/25 Integrated Investment Framework report also concurrently on this agenda, which sets out the policies and framework for future investment decisions for the Council.

Fairer Westminster Delivery Plan

17. Note the summary of the delivery actions for the Fairer Westminster Delivery Plan 2024/25 provided in Section 4. The full approved version of the 2024/25 Delivery Plan will be published in mid-March.

3. Reasons for Decision

3.1. The preparation of the budget is the final stage of the annual business planning cycle leading to the approval for the council tax for the forthcoming financial year. There is a statutory requirement to set a balanced budget and submit a budget return to central government. Approval of the revenue estimates constitutes authority for the incurring of expenditure in accordance with approved policies.

4. Delivering the Fairer Westminster Strategy

4.1. The Council continues to deliver its four-year Fairer Westminster strategy across the City through the annual Fairer Westminster Delivery Plan process, which is spread across five Fairer Westminster pillars: Fairer Communities, Fairer Environment, Fairer Housing, Fairer Economy and Fairer Council.

4.2. The Fairer Westminster strategy also sets out the values that will be embedded in the Council's ways of working to achieve them: openness and transparency, partnership and collaboration, and diversity and inclusion.

The Fairer Westminster Delivery Plan

Year 1: 2023/24 Delivery Plan

4.3. The Council published its first delivery plan in March 2023 which set out the key delivery actions in 2023/24 to achieve the Fairer Westminster outcomes, in alignment with the medium-term finance plan.

4.4. Progress against the delivery plan for 2023/24 is monitored and measured regularly with externally published key measures and updates to support the Council's transparency with its residents and communities. Some of the key achievements have included:

- launching a cost of living strategy in July 2022, with an initial £14m commitment;
- being the first local authority to launch an award-winning interactive environmental justice measurement data tool that allows residents to better understand how climate change affects their neighbourhood;
- adding more 300 social rent homes to the Council's house-building programme, as part the commitment to building of low-cost social rent homes across Westminster;
- freezing the Westminster City Council part of council tax until 2024, which meant that Westminster had the lowest band D rate in the country;
- launching a Westminster Against Dirty Money Charter, taking action against candy stores and souvenir shops in Oxford Street and tackling London's international reputation as a money laundering centre.

Year 2: 2024/25 Delivery Plan

4.5. The Delivery Plan for Year 2: 2024/2025 will build upon the successes of the first year's 2023/24 Plan while recognising the need to do more in light of the challenges continuing to face the City, such as the climate emergency, housing pressures and inequality. The delivery plan for 2024/25 will set out the key actions that will contribute most to the Fairer Westminster outcomes during challenging times, but also consider the financial sustainability and environmental impact.

4.6. Work is currently underway to agree the final set of delivery actions for the 2024/25 Delivery Plan with Cabinet and Officers, supported by the medium-term financial planning process to ensure resources are applied in the most effective and efficient way to achieve the Council's Fairer Westminster ambitions. This work will conclude in late February with an approved 2024/25 Fairer Westminster Delivery Plan scheduled for publication by mid-March on the Council's website.

4.7. Building on the successful work from last year, some of the key deliverables to be highlighted in the Delivery Plan for the year ahead 2024/25 are:

Fairer Communities

- Tackle inequalities, including health inequalities, through the Health and Wellbeing Strategy, #2035 programme, North Paddington, Changing Futures Programme, and Active Westminster Strategy, which includes the commencement of the Seymour Leisure Centre re-development
- Help families access services that tackle inequalities and strengthen the multi-agency support provided by our Family Hubs sites
- As part of the delivery of the VCS Investment Strategy, increase community fundraising capacity and deliver the three- year core funding programme of Council Investment and Communities Priorities Programme
- Provide timely, responsive, good-quality and strengths-based social care and launch the updated Healthy Lifestyles Service to ensure better outcomes for our residents
- Create more opportunities and strengthen the support provided to children in care and care leavers when transitioning to adulthood

Fairer Housing

- Deliver on the Council's ongoing commitment to providing affordable housing options for Westminster residents
- Deliver high quality services to all residents and widen the opportunities for collaboration and engagement with residents to ensure that services respond to the needs of all
- Provide greater transparency on how social housing is allocated through revision of the current policy
- Improve the quality, efficiency and delivery of the housing repairs service, with a focus on customer experience so that residents are informed of the progress of their repair from start to finish
- As part of the partial City Plan review, revise the affordable housing policy which will provide a stronger policy to deliver more genuinely affordable housing

Fairer Economy

- Work with communities and partners to deliver an enhanced public realm programme for Oxford Street, North Paddington and Regents Street
- Support vibrant high streets by developing and delivering our action plans for Harrow Road, Praed Street and Queensway
- Create an inclusive Evening and Night-time Plan through the Westminster After Dark Programme

- Develop skills and employment programmes as part of the North Paddington Programme, and expand sector-based skills programmes such as the Green and Sustainability skills work
- Launch dedicated support to the borough's existing scale-up business community and start ups with high growth potential to take their business to the next stage

Fairer Environment

- Enhance climate resilience to Westminster business, community and service through flood risk management, climate adaptation & resilience planning, and sustainable drainage systems.
- Support emissions reductions via electric vehicles, active transport, building retrofits, and sustainable business practices
- Implement greening and sustainability initiatives through updated planning policies and strategies
- Improve air quality and support active travel through school streets and cycling/walking initiatives.
- Help community groups improve their local green spaces through more funding and project support through the Greening Westminster programme.

Fairer Council

- Increased council spend with local organisations, SMEs and voluntary and community sector
- Enhance the Council's contact centre and user experiences across the website and digital platforms to deliver smarter, more personalised and empathetic services to customers.
- Ensure the Council's procurement, investment activity and work with contractors supports Westminster's sustainability ambitions and ethical treatment of people.
- Make it easier for communities to stay informed and engaged with the Council by increasing transparency with performance reporting of services
- Launch the Charter of Community Participation which will clearly set out the Council's commitments and standards for engagement, inclusivity, and accessibility with public participation.

Key areas of consideration

Macro-Economic Outlook

4.8. Despite being poised to experience the full impact of global challenges such as higher energy prices, inflation, and interest rates, the UK economy has displayed signs of resilience, albeit under a slow-growth auspice. The Office for National Statistics (ONS) reports zero growth in the third quarter of 2023 (July to September), following a 0.2% expansion the previous quarter.[1] Furthermore, projections from the Bank of England and the Office for Budget Responsibility

[1] Office for National Statistics, 'GDP first quarterly estimate, UK: July to September 2023', 10 November 2023

(OBR) suggest continued weak growth in the coming year. In the medium-term other challenges persist due to the UK's low investment compared to other major economies, a lingering increase in economic inactivity after the pandemic and slow trade growth after Brexit.[2] Continued conflict in Europe and the Middle East will add to the global economic uncertainty.

4.9. The Consumer Prices Index (CPI) rose by 3.9% in the 12 months to November 2023, down from 4.6% in October and its 41-year high of 11.1% in October 2022.[3] Inflation is expected to continue falling in 2024, albeit more gradually than in 2023. The latest report published in early November 2023 by the Bank of England forecasts the CPI inflation rate to average at 3.1% in Q4 2024.[4] The OBR estimates a return to the 2% target by the second quarter of 2025.

4.10. Linked to rising inflation the Bank of England have raised base interest rates at fourteen consecutive policy meetings from 0.1% in December 2021 to 5.25% in August 2023. However, at its November and December 2023 meetings, the Bank of England's Monetary Policy Committee left interest rates unchanged at 5.25%. Interest rates are expected to remain higher for longer to support bringing inflation under control. Past rises in interest rates are still to have their full effect on the economy, with the increased share of fixed rate mortgages in recent years slowing the pass-through of higher mortgage rates to household incomes. The Bank of England estimates that over half the impact from nearly two years of interest rate rises is still to be felt.[5]

4.11. Labour demand has weakened recently, with vacancies falling from a peak of 1.3 million in May 2022, to around 960,000 in October 2023. As such, unemployment is expected to rise to 1.6 million people, or 4.6% of the labour force, in the second quarter of 2025, before falling back to its "assumed structural rate" of 4.1% by the end of the forecast period.[6]

Cost of Living Support

4.12. Over this period of historically high inflation, the impact on resident households has been challenging. An estimated 31,000 households in Westminster are especially impacted as they spend greater shares of their income on fuel and food. Data analysis suggests that the cohorts of residents most affected are:

- single people on low incomes (on benefits or in work)
- families with children

[2] https://www.london.gov.uk/sites/default/files/2023-12/LEO-Autumn-2023-final.pdf
[3] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2023
[4] Bank of England, November 2023 Monetary Policy Report, 2 November 2023.
[5] Bank of England, November 2023 Monetary Policy Report, 2 November 2023.
[6] https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/

- pensioners
- those with disabilities
- residents in the most deprived wards in Church Street, Queens Park and Harrow Road, although residents in all wards are affected.

4.13. In July 2022 the Council launched a Cost-of-Living Strategy (https://www.westminster.gov.uk/cost-of-living-support) setting out a plan to help residents through the crisis. This was followed by the Council declaring the cost-of-living crisis an emergency in September 2022.

4.14. In response a total package of £19m of support has been made available to date and a further £1m proposed in 2024/25 giving a total of £20m. This support is funded from a variety of sources; both from Government and the Council. The additional £1m one-off cost of living support in 2024/25, is to be funded from earmarked reserves. The Household Support Fund is included in the government funding, and this is picked up in more detail later in this report.

Autumn Statement – 22 November 2023

4.15. On 22 November the Chancellor announced the Autumn Statement 2023. There was very little new information for local government in this statement with no new funding announced for local authorities.

4.16. The key announcements made in relation to local government were:

- social care grant allocation increases for 2024/25 that were announced in the 2022 Autumn Statement have been confirmed.
- prospects for local government finance settlements in the next spending review period look very tight. There is no change in the overall planned public sector expenditure of 1% in real terms. This would mean real terms cuts for unprotected services, including most of local government.
- The core council tax referendum principles remain the same i.e. that local authorities are given the option to raise core council tax by up to 2.99% without a referendum. Additionally, there is the ability to increase the Adult Social Care (ASC) precept element of council tax by 2%. For context, a 1% council tax increase in Westminster would raise £0.656m per annum.
- Local Housing Allowances (LHAs) rates in central London are capped below the 30th percentile, but the cap amount is increasing from April. LHA rates had been frozen for several years and this decision will increase the housing benefits that tenants can claim for their rent. There is no direct impact on local government, but indirectly it should partially reduce the significant demand pressure on temporary accommodation and homelessness.

- The small business rating multiplier and the standard multiplier will be decoupled following the implementation of the Non-Domestic Rating Act 2023. In addition, the indexation factor applied will change from RPI to CPI. The Chancellor has used these new powers and taken the opportunity to freeze the small business rating multiplier whilst the standard multiplier is fully indexed. This allows the Chancellor to minimise revenue losses whilst supporting small business. Local authorities will be fully compensated for any loss of income from freezing the small business multiplier through a section 31 grant.

Provisional Local Government Finance Settlement 2024/25

4.17. After the Policy Statement was issued by the Minister on 5 December 2023, the provisional 2024/25 Local Government Finance Settlement was published the on 18 December 2023, in a Written Ministerial Statement to the House of Commons by the Rt Hon Michael Gove MP, Secretary of State for Levelling Up, Housing and Communities (DLUHC). It outlined provisional funding allocations for local authorities for 2024/25, effectively the second year of a two year overall Local Government settlement.

Final Local Government Settlement 2024/25

4.18. On 24 January 2024 government announced an additional £600m support package for local government to help with the financial challenges that the sector is facing. This additional funding increases overall proposed funding for next year to £64.7bn or a 7.5% increase in cash terms. This followed concerns raised by local authorities through the provisional settlement consultation process.

4.19. The allocation of this additional funding was announced as part of the final Local Government Finance Settlement on 5 February 2024. The £600m additional funding includes £500m additional social care grant, £15m rural services grant, £3m for 'the islands', an increase in the funding guarantee from 3% to 4% and an increase in the services grant of £11m.

Government Funding

Core Spending Power (CSP)

4.20. Core Spending Power is a measure of the total revenue funding available to authorities and includes government assumptions on a maximum increase in council tax and business rates income (including compensation for under indexing) as well as growth in the council tax base. Nationally council tax is around 60% of the total Core Spending Power (but only 26% in Westminster)

4.21. The Department of Levelling Up, Housing and Communities (DLUHC) measure for 2024/25 is that CSP will increase in cash terms by 7.5% across England.

Westminster's equivalent indicative CSP as calculated by government is an 8.7% increase on 2023/24.

4.22. A summary of the Council's funding settlement in comparison to 2023/24 is provided below:

	CSP 2023/24 £m	CSP 2024/25 £m	Change £m	Change %
SFA-Revenue Support Grant	34.9	37.2	2.3	6.6
SFA-Baseline Funding – redistributed NNDR	93.8	99.5	5.7	6.1
Improved Better Care Fund	17.6	17.6	0.0	0.0
Social Care Grant	26.5	34.8	8.3	31.3
Service Grant	3.7	0.6	(3.1)	(83.8)
New Homes Bonus	0.2	2.4	2.2	1,100.0
Market Sustainability and Improvement Fund	3.1	5.8	2.7	87.1
Discharge Fund	2.5	4.1	1.6	64.0
Consolidated Grants	2.0	0.0	(2.0)	(100.0)
Sub-Total	184.2	202.1	17.9	9.7
Council Tax max rise govt assumption 5%	65.0	69.0	4.0	6.2
Compensation for Business Rates Relief	16.0	17.2	1.2	7.5
Total Core Spending Power	**265.2**	**288.3**	**23.1**	**8.7**

Settlement Funding Assessment (SFA) - £8.0m increase for Westminster

4.23. The settlement funding assessment is the core government funding for local authorities and includes a national redistribution of locally collected business rates and incorporates the previous formula revenue support grant funding. The Government has confirmed total SFA nationally will increase by £892m from £15.671bn to £16.563bn. The Council's SFA has increased from £128.6m to £136.7m, representing an increase of 6.2%. This is slightly higher than the national increase of 5.7%.

Improved Better Care Fund (iBCF) – No increase for Westminster

4.24. The grant will continue to be required to be pooled as part of the Better Care Fund. For Westminster this is £17.6m.

Adult Social Care Funding

4.25. The government announced increases in social care funding in the Autumn Statement 2022 which included a maximum increase of 2% in the Adult Social

Care precept. Government fully expects Local Authorities to take the precept to assist in paying for adult social care pressures. Four separate grants have been given for social care alongside the precept:

- Social Care Grant – this grant can be used to meet both adults and children's social care needs. The allocation for Westminster is due to increase from £26.5m to £34.8m (31%)

- Market Sustainability and Improvement Fund – increased from £3.1m to £5.8m which now includes the ASC Workforce Fund of which Westminster received £2.012m during 2023/24. The rolling in of this grant increases the chances of that funding continuing in 2025/26.

- Improved Better Care Fund – this has remained cash flat in 2024/25 and remains at £17.6m which is the local authority element which will be received by Westminster. Each Integrated Care Board (ICB) will receive separate discharge funding, the amount of which is currently unknown. The board will then decide on how that funding is distributed including whether Westminster will receive an allocation.

- Discharge Grant – this has increased from £2.5m to £4.1m. The additional funding for social care is intended to support improvements to adult social care and to address discharge delays, social care waiting times, low fee rates and workforce pressures in the adult social care sector.

<u>Services Grant - £3.1m decrease for Westminster</u>

4.26. The services grant was first introduced in 2022/23 with £822m of funding nationally and was noted to be a one-off grant 'to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government'. In 2023/24 this was reduced to £483m and in 2024/25 this will now be £87m. Although this has been reduced substantially it has likely been used to fund the increases in funding in other parts of the system, e.g. RSG and Social Care grant. For Westminster this results in a reduction in this core grant from 2023/24 to 2024/25 of £3.1m to £0.6m.

<u>New Homes Bonus (NHB) - £2.29m increase for Westminster</u>

4.27. The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. The national amount allocated remains at £291m. As part of this the Council will receive £2.44m in 2024/25 which is an increase from 2023/24 of £2.29m. Part of the payment is an enhanced sum for each new affordable unit delivered between October 22 and October 23 which was 911 compared to 442 in the previous year. Since Government has previously made clear its intention that NHB would be phased out since 2021/22 the Council had not budgeted for further grant increases from 2024/25 onwards so the allocation of this grant improves the budgeted position.

Local Taxation

Council Tax

4.28. Westminster City Council's council tax charge, in 2023/24, is the lowest in the country at £477.91 per annum for a Band D property. Any increases to council tax are capped at the following levels (as announced in the Autumn Statement 2023):

- Up to 2.99% maximum "core" increase, the general element of council tax for all services

- 2.00% adult social care precept

4.29. The purpose of this cap is to ensure that 'excessive' council tax increases occur only where authorities have a clear mandate from local people through a referendum.

4.30. For every 1% increase to Band D council tax, the Council generates approximately £0.656m funding. For 2024/25, the Council proposes an increase on the core element of council tax of 2.99% which equates to £14.29 per annum or 27p per week; and an increase on the Adult Social Care Precept of 2.0% on a Band D property which equates to a £9.56 per annum increase or 18p per week. Cumulatively this is £23.85 per annum or 45p per week.

4.31. Additionally, the Council has retained the council tax support scheme at a maximum 100% funded for working age residents. Further details of this scheme are set out later in this report.

Other Funding

Household Support Fund (HSF)

4.32. In 2021, the government announced the vulnerable households across the country would be able to access a new support fund to help them with essentials over the winter. Initially expected to run to 31 March 2022, HSF has since been extended annually to run until 31 March 2024. The total HSF allocated to Westminster during 2023/24 was £3.9m which must be spent by March 2024. This is being used locally to support the wider cost of living strategy locally. In 2023/24 it has been utilised on the following key support mechanisms:

- £2.1m - food for free school meals eligible pupils during school holidays

- £1.3m – supermarket food vouchers for residents in difficulty but not qualifying for the government's £900 support

- £0.5m – other support through a hardship fund, food charities and advice.

4.33. As at the time of writing this report the government had not announced any extension to this funding, which is due to end in 2023/24. There has been significant lobbying of government to extend the support and an announcement may still be forthcoming. When the position is clear the Council will review the available resources and potentially reshape the wider cost of living support package to ensure that the most affected continue to be assisted.

4.34. HSF has been allocated according to the Cabinet Member Report published in April 2023 (Household Support Fund CMR) and is expected to be fully spent by March 2024.

GLA Funding for Free School Meals

4.35. The Mayor of London has announced the continuation of funding for free school meals for primary school pupils up to Year 2 in 2024/25. In 2023/24 a total of £130m was allocated across London and this will rise to £140m for this second year. In 2023/24 academic year Westminster received funding totalling £1.390m

Dedicated Schools Grant (DSG)

4.36. The table below shows the 2024/25 DSG and teachers pay additional grant funding allocations for Westminster. The provisional 2024/25 allocation (before the deductions for payments to academies) has increased by £5.045m (2.7%) from 2023/24 to £191.671m including funding for the new early years entitlements for working families in receipt of benefits.

4.37. Overall the schools block has reduced by 0.39% to £129.279m as a result of pupil numbers reducing by 612.5 to 16,745 and the increase in per pupil funding is 2.7%. Once the Teachers Pay Additional Grant is taken account of the increase is 3.5% per pupil. Schools with falling rolls continue to be in a challenging budget position and the number and size of schools in a deficit position is increasing. Schools in deficit are required to set a deficit recovery plan over 3 years and of the 14 schools currently in deficit, 7 are still working on their deficit recovery plans.

Block	2024/25 £m	2023/24 £m	Change £m	Change %
Schools – including mainstream schools additional grant (MSAG) added to 2023/24 baseline *	129.279	129.764	-0.503	-0.39%
Estimated Teachers' Pay ** Additional Grant (TPAG)	2.251	1.320	0.931	70.53%
Sub total Mainstream Schools	***131.530***	***131.084***	***0.428***	***0.33%***

High Needs ***	43.471	41.977	1.518	3.62%
Central School Services	0.943	0.954	-0.011	-1.15%
Early Years ****	15.727	12.617	3.110	24.65%
Total	**191.671**	**186.632**	**5.045**	**2.70%**
*Allocation before deduction for academies and including the mainstream schools additional grant in 2023/24, which is included in the Schools Block from 2024/25. ** The 2023/24 allocation is from September 2023 and for 2024/25 is the full financial year *** Allocation before deduction for academies high needs places. The provisional High Needs allocation will be updated by March 2024. **** Early Years allocation is provisional at this time for both years and includes funding for new entitlements in 2024.				

4.38. The **high needs** block has increased by 3.62%. Nationally high needs funding has increased by 4.3% since 2023/24 and Westminster is seeing a lower increase as pupil numbers are decreasing. The allocation reflects the funding floor minimum increase of 3% compared to 2023/24 as well as the number of pupils in special schools and proxy factors such as free school meal numbers and general school pupil numbers. Funding is not based on the number of pupils with High Needs other than those in special schools.

4.39. The net increase in **early years** block funding mainly relates to the new entitlements for working families in receipt of benefits, partly offset by a reduction in the maintained nursery school (MNS) supplement rate of approximately 8% (including TPPG). The funding for 2023/24 and 2024/25 will be updated to reflect later early years census data. The majority of the funding is passed to providers both in maintained schools and private, voluntary and independent settings. The DfE have increased the hourly rate for 3 and 4 year olds and the pass-through rate will increase from £7.08 to £7.29 (+3% hourly rate) per hour for providers. The hourly funding rates for eligible 2 year olds has reduced from £11.11 to £10.39 (-6.5%) as the calculation has changed since 2023/24 as the 2023/24 rate did not attract the usual retention and allow for separate deprivation and contingency funding. Currently Children's Services retains a 5% element of early years funding to support the coordination of central services which will reduce to 3% once the entitlements are sufficiently embedded.

4.40. In addition to the DSG, mainstream and special schools will be allocated additional funding through the teachers pay additional grant (TPAG) from September 2023 and in 2024/25. The indicative allocation of the TPAG for Westminster in 2024/25 is £2.251m. Final allocations for the MSAG will be confirmed in spring 2024. The

2023/24 allocation in the table above is from September 2023 and for 2024/25 is the full financial year.

Homelessness Prevention Grant (HPG)

4.41. In 2023/24 Westminster received an allocation of £6.9m through the Homelessness Prevention Grant (HPG) and a further £1.9m via the Ukraine Homelessness Prevention Grant top-up. The HPG allocation for 24/25 has been confirmed at £7.0m, (1.4% increase). Any additional grant top-ups are yet to be confirmed.

Public Health Grant

4.42. The government has announced the Public Health grant for 2024/25. Westminster will receive £35.125m which is an increase of £700k (2.0%) on 2023/24.

5. Budget Gap

5.1. The estimated budget gap in the Medium Term Financial Plan as reported to Cabinet in July 2023 was £48.5m from 2024/25 to 2026/27. The 2024/25 gap was reported as £6.1m.

5.2. Work has continued through this financial year to prepare savings proposals, manage the various cost pressures including the ongoing impact from inflation, and to prepare investment proposals to inform the medium-term financial plans. In November the government's Autumn Statement was published and then the announcement of the local government finance settlement followed on 18 December 2023. This report proposes a balanced budget for 2024/25 and shows a remaining forecast gap of £48m over the following two years. The overall changes in the budget are summarised below:

5.3.

Changes Since July 2023	2024/25 over 2023/24	2025/26 over 2024/25	2026/27 over 2025/26	Total
	£m	£m	£m	£m
Budget Gap - July 2023	**6.141**	**25.003**	**17.317**	**48.461**
Service Specific Items:				
New Savings	-10.726	-8.110	-5.730	**-24.566**
New Pressures	36.013	-5.095	-0.770	**30.148**
Fairer Westminster Investments	7.079	-2.110	-1.404	**3.565**
Changes to Existing Savings	0.500	0.000	-0.500	**0.000**
Subtotal	**32.866**	**-15.315**	**-8.404**	**9.147**

Funding:				
Changes since the provisional LG settlement - December 2023	-5.182	0.007	0.791	**-4.384**
Corporate Changes:				
Interest Earnings	-18.200	9.000	2.000	**-7.200**
Inflation & LLW	3.978	0.000	0.000	**3.978**
Business Rates Safety Net	7.500	-7.500	0.000	**0.000**
Council Tax Increase	-3.275	0.000	0.000	**-3.275**
Other	-1.006	0.119	2.205	**1.318**
Subtotal	**-11.003**	**1.619**	**4.205**	**-5.179**
Budget Gap Before Use of reserves	**22.821**	**11.314**	**13.909**	**48.044**
Use of Reserves	-15.321	8.897	6.424	**0.000**
Business Rates Reserve	-7.500	7.500	0.000	**0.000**
Budget Gap	**0.000**	**27.711**	**20.333**	**48.044**

5.4. New **savings** of £24.566m are proposed over the planning period to 2026/27. Each proposal is listed in Appendix 4. Most of the new savings proposals fall in 2024/25 and further savings will require identification as the medium term planning period progresses.

5.5. Savings from cost reductions have been identified and come from a variety of sources, for example:

- procurement efficiencies as contracts come up for renewal
- efficiency savings through service model reviews and demand prevention
- reduced revenue costs through asset renewal, for example, new electric waste vehicles and electrification of cleansing service
- energy savings through reduced carbon footprint of operational properties.

5.6. Fees and charges have been reviewed and have largely increased in line with the Consumer Price Index to ensure that cost recovery is maintained on the delivery of those services. Some examples on where income will support the 2024/25 budget position are:

- income arising from corporate property portfolio
- improved, post-pandemic activity on commercial waste
- improved use of grant income to support social care services

- fees and charges review (approved at Cabinet in December 2023).

5.7. In 2023 the Council set out its Fairer Westminster vision and identified several **investment** priorities. For 24/25 it is proposed to implement previously agreed investments totalling £1.393m to be funded from reserves. Further investments of £7.079m are now proposed, of which £4.304m will be met by earmarked reserves in 2024/25 and the remaining £2.775m will be funded from the general fund revenue base budget. Details of those investments can be seen at Appendix 5. The key areas are outlined below:

- Cost of Living Support (£1m in 24/25) - To continue the support of the of cost of living support scheme started in 2023

- Temporary Accommodation & Homelessness (£1.476m in 24/25) – a range of items providing increased support for Westminster residents in tackling homelessness, including investment in front-line capacity for the Homelessness Solutions Service, transformation funding for the homelessness elements of the Housing Improvement Programme, and increased capacity within the Temporary Accommodation acquisition team.

- Adult Social Care Pay (£1.2m in 24/25) – investment to tackle low pay and inequality in the care sector. This is funded from the Market Sustainability and Improvement Fund grant

- Ecological Emergency (£450k in 24/25 and 25/26 and £150k ongoing thereafter) – investment to tackle declaration of ecological emergency and implementation of recommendations from Climate Assembly, this includes data analysis and delivering ecological projects.

5.8. New **service pressures** total £30.1m over the next three years. Service pressures arise from a combination of increased demand, reduced income levels in certain commercial income streams and external factors affecting costs. Pressures are set out in full in Appendix 5. The key pressures are:

- Temporary Accommodation (TA) (further £38m in 24/25 in which reduces to £32m in 25/26) – remains the most significant pressure to Westminster and 2023/24 has seen continued cost pressures in TA both nationally and across London. This increase has been driven by four main factors:

    - increased demand, the number of households in TA has risen by 22% since 2022/23 and is projected to be 38% higher by the end of 2024/25. Demand levels have outstripped the original MTFP projections over the second half of 2023/24 which has resulted in a further increase to the required budget growth for 2024/25;

    - Inflation continues to impact the average weekly rent;

    - Supply shortages, the availability of suitable TA supply is limited due to a significant number of landlords exiting the market. The reasons for this are a combination of several issues including reduced tax incentives, a higher level of regulatory responsibilities and increasing costs / interest rates. This has driven an increase in the use of expensive nightly-paid accommodation solutions;

    - with the rents that Westminster can charge for this accommodation effectively capped at historic local housing allowance rates, the net cost of TA is increasing. This compounds the impact of cost increases as income from rents has effectively been frozen for 12 years.

  The 2024/25 budget assumptions for TA assume the following:

    - additional TA demand of 500 households (which is lower than the c.700 growth for 2023/24)
    - new demand will be accommodated using a combination of WCC owned stock (300) and cost-effective private-sector provision (200)
    - existing high-cost nightly paid placements will be reduced to zero by the 31 March 2025 (which equates to 11% of current supply)

  Part of the additional budgeted cost for temporary accommodation will be met by reserves (£11m in 24/25 and £4.4m in 25/26).

- Adult Social Care (£550k ongoing from 24/25 above inflation)– increased demand for client and care packages in respect of learning difficulties, acute needs, and mental health. The average increase in demand over the last two financial years is 5.2%.

- Planning Fee Income Shortfall (£1.6m ongoing from 24/25) – a further reduction in the volume of planning applications over successive financial years since the pandemic, particularly for Major developments (which generate the most revenue), is driving an on-going budget pressure of £1.6m. Planning income has reduced from £2.9m in 18/19 to £1.5m in 23/24 with average annual major applications reducing from 39 to 19. The government is set to increase centrally set fees, but this will only reduce the income shortfall by an estimated £380k.

5.9. Corporate budget changes and variations: several corporate pressures have been recognised in the budget process during this year. These are mainly:

- Inflation: Provision for estimated contract and pay inflation of £10.9m. Unprecedented inflation levels have been seen over the recent year and whilst current OBR forecasts suggest this will fall, provision has been made following a review of the Council's key service contracts. The Council will continue to review different indices and negotiate appropriate inflationary increases in contracts rather than just apply the appropriate inflationary index across the board. The London Living Wage has increased by 10% and will be applied to all contracts appropriately from April 2024. Provision for next year's Local Government pay award has been made at 3%. Updated forecasts anticipate inflation taking longer to reduce back to the Bank of England's Monetary Policy Committee target of 2%.

- Interest Earnings: interest rates have continued to increase in 2023/24 starting from 4.25% in April 2023 and rising to its current position of 5.25%. This means that the Council's investment earnings are expected to remain higher than originally budgeted for in the short-term, increasing income by £15.2m on average cash balances of £0.8bn in 2024/25. This additional income is expected to reduce after 2024/25 as cash balances reduce from expenditure related to the capital programme and expected reductions in interest rates.

- Business Rates Safety Net: The Council forecasts that its business rates collection position in 2024/25 will be at safety net as a result generating less business rate income than expected by government. The maximum loss that the Council can incur is 7.5% of the baseline position which is £7.5m in 2024/25. The government underwrite any losses beyond that so is not a financial risk for the authority. This £7.5m loss will be funded from the business rates risk reserve. The reserve will be boosted by the release of provisions held to offset the impact of appeals against the 2017 rating list. Appeals against the 2017 list are now closed, and the financial loss from the outcome of outstanding appeals will be less than the estimate. Due to this one-off event, a surplus will be generated in 2023/24, which will be realised in 2024/25. This was also the rationale for using this reserve to help fund the pension fund deficit repayment.

6. 2023/24 Forecast Outturn Position

6.1. The budget monitoring position at the end of December 2023 is forecasting an overspend of £3.0m against the approved net budget. This is largely the impact of significant temporary accommodation pressures offset by increased income from interest earnings due to higher than expected interest rates. There are further pressures due to continuing income challenges from Planning and pressures within Childrens Services.

6.2. The estimated ongoing impacts of these variations, aligned to the government's economic growth forecast, have been considered in the budget for next year.

6.3. Work is continuing to review the current position and consider actions to reduce the overspend. The final position will be covered from the Council's general fund balance.

7. Pension Fund

7.1. The City of Westminster Pension Fund includes the City Council's pension obligations as well as those for several other admitted and scheduled bodies, including academies.

7.2. The valuation of the Westminster City Council Pension Fund as of 30 September 2023 was £1.795bn. The Fund returned 7.49% in the year to 30 September 2023, largely due to positive returns within the equity and fixed income mandates.

7.3. The triennial valuation of the Westminster Pension Fund was completed by the Council's actuary, Hymans Robertson, valued as at 31 March 2022. The actuarial report values the future liabilities of the Pension Fund and sets the employer's contribution rate for the three years from 2023/24 to 2025/26. The whole Fund's funding level rose to 128% from the 99% level in 2019, which is broadly due to the excellent investment returns over the period, as well as the Council's additional deficit recovery payments.

7.4. The funding level for Westminster City Council (as a single employer) increased to 111%, improving from 86% previously. Specifically, the effect of strong asset returns, and the significant secondary contributions helped to improve the funding position, with the Council paying off its deficit during 2021/22. The actuary reported that the employer's contribution rate for the Council was to remain stable at 16.8%.

7.5. The estimated funding level for the Westminster Pension Fund has increased by 32% to 160% as at 30 September 2023 (128% at 31 March 2022). The funding level for Westminster City Council as an employer has also increased, with an estimated funding level of 138% as at 30 September 2023 (111% at 31 March 2022). The improvement is largely because of an increase in the expected discount rate, which is linked to UK gilt yields.

Pension Fund Governance

7.6. The Pension Fund Committee acts as trustees for the whole Pension Fund and takes decisions on behalf of all employers and pensioners. The Local Pension Board continues to operate alongside the Pension Fund Committee as a overseeing and scrutiny function, and reports on its activities to the Pension Fund Committee and Full Council. The Board, comprised of both employer and employee representatives, is required to assist the Council to ensure compliance with the regulations and other legislation relating to the management of the Pension Fund.

7.7. The Pension Fund continues to work with the London Collective Investment Vehicle (LCIV). All local government pension schemes in England and Wales are required to form investment pools with investment manager appointment and monitoring decisions undertaken at pool level. Westminster and all the other London Boroughs are members of the LCIV, set up to facilitate joint procurement of investment managers, with the objective of achieving significant savings and enhancing net of fees returns.

7.8. As at 30 September 2023, the London CIV had £27.4bn of assets under management of which £14.8bn are directly managed by the London CIV. Westminster is one of the biggest London borough supporters of the London CIV LGPS pool, with over £1.209bn of pension fund investments procured through this vehicle, including £423m invested passively in the Legal & General (LGIM) passive equities fund.

7.9. As part of the 2023 investment strategy review, the Fund's investment consultant, Isio, advised that it would be appropriate for the Pension Fund to take steps to de-risk following the significant improvement in the funding level. The largest contributor to funding risk is the Fund's large allocation to equities, with exposures to interest rate and inflation sensitivity also a significant contributor to risk. Therefore, at the meeting in June 2023, the Committee agreed to reduce the active equity allocation by 5% and to transition these funds into renewable infrastructure.

7.10. As agreed at the Pension Fund committee meeting in June 2023, the Committee allocated 2.5% (£45m) to the London CIV UK Housing fund. The fund targets a 5-7% net return and will focus on three key areas including general needs social and affordable housing, specialist housing and transitional supported housing. Affordable housing is aimed at low-income workers who are not in the financial position to buy their own properties.

7.11. In addition to this, a decision was taken by the Committee during October 2023 to top up the CVC Credit private debt mandate, to ensure the allocation remains in line with the 6% strategic asset allocation. Investing within a Private Debt mandate provides diversification from mainstream asset classes, access to higher yields and stable performance throughout market cycles.

7.12. The Westminster Pension Fund was accepted as a signatory to the UK Stewardship Code in February 2023, with the Fund among only a handful of LGPS funds in London to achieve signatory status. To become a signatory of the Code, applicants must submit a Stewardship Report to the Financial Reporting Council (FRC), demonstrating how the principles of the Code have been applied during the previous 12 months.

7.13. During July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) released a consultation seeking views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covered the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The Fund submitted a response on 29 September 2023, with formal guidance expected from the government during 2024.

8. Other Budget Reports

8.1. As part of the budget setting process each year there is also a statutory requirement to present the Capital Strategy, HRA Business Plan and Treasury Management Strategy to Cabinet and Full Council.

Capital Strategy

8.2. The Capital Strategy sets out the Council's long term capital investment plans over the next 15 years. The Capital Strategy is being reported separately on the agenda for this committee meeting.

8.3. The Council's long-term capital investment is underpinned by the objectives of Fairer Westminster. Capital investment is considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications and the Council has set aside a significant revenue budget to cover capital financing costs as part of its medium and longer term planning. The affordability of these plans will be kept under annual review.

Housing Revenue Account Business Plan

8.4. The HRA 30-year Business Plan is set out separately on this agenda. The proposed rent increase is at the maximum cap of 7.7%, which reflects the national rent policy that sets a ceiling of CPI+1% (based on September CPI). The current rent policy expires at the end of 2024/25 and authorities await consultation on the rent regime that will be implemented from 2025/26 onwards.

8.5. The Council is proposing to extend the Rent Support Fund for a further 12 months to continue to provide support for households in 2024/25. An additional £1.050m has been earmarked within the plan.

8.6. The business plan includes a series of revenue growth items that reflect statutory requirements and Fairer Westminster policy objectives. It also presents a balanced capital programme that delivers additional social rented homes, investment for improving the condition of existing stock and capital headroom for the proposed renewal of the Pimlico District Heating Network (PDHU).

Treasury Management Strategy

8.7. The annual Treasury Management Strategy Statement (TMSS) is presented to Full Council as part of the budget process. The TMSS sets the strategy framework, criteria, boundaries and limitations for borrowing and investment decisions over the next year and the three subsequent years to ensure security of capital, liquidity and yield.

8.8. As anticipated in the 2023/24 TMSS, the Council took no additional long-term borrowing for the financial year due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow in future years if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

8.9. During the financial year 2019/20, the Council arranged forward borrowing loans totalling £400m. These loans have enabled the Council to agree competitive rates in advance of need which eliminates the “cost of carry”, i.e., the difference between loan interest cost and the rate of return on cash investments. The loans have now been received. The average rate achieved for the forward loans is 2.579%. The use of forward loans has assisted with certainty of cash flow planning, particularly on the Council’s housing development schemes. While borrowing rates are expected to remain high in the short term, the forecast is that these will reduce over the planning period and the Council will be able to finance its capital plans within its existing cash and this forward borrowing already secured.

8.10. The current 2023/24 annual investment strategy was set in an environment of rising interest rates, with expectations of modest interest rate rises remaining as a peak had almost been reached. CPI inflation began to fall throughout the year from 8.7% in April to 6.7% in September 2023, its lowest rate since February 2022. The Bank of England continued to increase interest rates throughout the year until September where interest rates were left unchanged at 5.25%. With CPI inflation past its peak and expected to decline further, the UK economy has got through the cost of living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly.

8.11. The overall longer term trend is for gilt yields to fall back over the coming years as inflation falls throughout 2024. Investment yields for the year have been significantly high and this is expected to continue into next year and then start to reduce as the Bank of England reduces the base rate as inflation comes under control.

8.12. Various opportunities to diversify the treasury portfolio, ensure further the security of cash balances, ensure appropriate liquidity to meet Council obligations as and when required, and enhance yield within acceptable risk parameters continue to be investigated.

9. Financial Resilience – Risks and Reserves

9.1. The UK’s economic outlook remains uncertain over the medium-term with several risks and uncertainties over inflation, interest rates and economic growth. Future government spending is tight, however with a general election likely to happen this year any new government will need work through a new Comprehensive Spending Review to set out its plans for taxation and spending. The Council will continue to monitor these issues alongside other risks and pressures and retaining reserves is a key mechanism to help mitigate against those risks impacting on the Council’s front-line services.

Risks and Uncertainties

9.2. The key risks in the medium-term financial plan have been identified and assessed as:

- Future of government funding –There are indications that Westminster's funding levels will reduce from 2025/26 assuming the Fair Funding Review is implemented. Additionally, the 2021 Census presents a significant risk to future funding as the data collected at that date indicates that the population is 65k lower (c25%) than the preceding 2020 mid-year estimates. The ONS have accepted that this doesn't reflect a 'normal' position as it was during the pandemic. The Council is leading Pan-London work to respond to the ONS to capture a more realistic position for the next mid-year population estimate position.

- Business rates reforms – business rates reform also remains on the government's agenda with a future "reset" of the system being planned for several years. Government confirmed in December 2022 that the reset would be delayed for at least another two years. A reset means that any business rates growth generated in Westminster may be redistributed away from the City.

- Business rate volatility - Westminster has significant risk with such a high level of business rates collected in borough, mitigated partly with the safety net system, but risk on appeals and bad debts remain – sufficient provision in earmarked reserves is made for this.

- Adult social care reform – On 7 September 2021, government set out its new plan for adult social care reform in England. This included a lifetime cap on the amount anyone in England will need to spend on their personal care, alongside a more generous means-test for local authority financial support. Part of the reform is the intention to equalise the cost of council-funded care and the median paid by those arranging their own care. However, as part of the Autumn Statement the Government announced that this reform would be postponed until at least October 2025. Until further guidance is given, future funding of Adult Social Care remains uncertain.

- Housing and homelessness – cost pressures in temporary accommodation (TA) are largely driven by external factors outside of the Council's control. This year has seen an unusually sharp increase in the cost of private rented accommodation (over 21%). There remains a risk that this trend continues with lease renewals due in the future. Compounding market supply issues are exacerbating the pressure in addition to the impact of the cost of living crisis, and the end of the Government supported scheme for Ukrainian refugees. There is no indication that Government is considering any changes to the rent and benefits regime so income levels will remain relatively static, meaning the net cost of TA will continue to increase. Government consultation on changes to the formula for calculating Homelessness Prevention Grant have been postponed, although there is certainty of funding for 23/24 and 24/25 with Westminster seeing small increases of c£0.1m per annum. The Council has allowed £85m to purchase an additional 270 properties for TA to partly relieve the pressure on the revenue budget and to improve the Councils support for homeless residents.

- Inflation and interest rates – inflation remains one on the key risks on the 2024/25 budget and beyond with September CPI at 6.7%, before falling to 3.9% in November 2023. This was the lowest inflation rate since September 2021. The OBR predict this to fall, but there is still significant uncertainty given continuing global events. Staff pay, which is negotiated nationally has increase by 5% in the current year, and a further 3% is assumed in 2024/25.

- Interest rates – interest rates have been continued to be increased by the Bank of England to try and combat inflation. The Council sees a significant benefit from treasury management interest earnings on its cash deposits, however as rates fall over the medium term then these earnings will fall. Higher rates will impact on the Council's borrowing for capital purposes; however, this is largely mitigated over the next couple of years by the forward borrowing deals that have secured £400m at an average rate of 2.6%.

- Capital programme - risk in terms of slippage, capital receipts and other external factors affecting delivery and these are set out in more detail in the concurrent Capital Strategy report

- Other service demand - pressures can arise from additional service demand in areas of higher volatility in addition to temporary accommodation mentioned above, including children's and adults social care. These services are monitored carefully during the year to be able to respond with management actions and / or additional capacity where required

- Income – the Council continues to be affected by the impact of economic activity after the pandemic and now into a cost of living crisis. Several income streams have seen further reductions in the current year and a prudent view has been taken of future income expectations.

Reserves Policy

9.3. Reserves are an important part of financial planning. They are held for two overarching purposes; to mitigate risks such as those outlined in the section above, or to invest in the Council's priorities.

9.4. Local authorities hold two categories of reserves, usable and unusable:

- *Usable reserves* are defined as those that the Council could utilise to fund capital or revenue expenditure. Some of these reserves could be applied generally but others will have stipulations attached on their use;

- *Unusable reserves* hold unrealised gains or losses for assets not yet disposed of and accounting adjustments, which are required by statute. These reserves cannot be used to fund capital or revenue expenditure.

9.5. The Council's usable reserves can be grouped into the following sub-categories:

- *General Reserves* – working balances held to ensure long term solvency and to mitigate risks e.g., the General Fund balance and the Housing Revenue Account balance;

- *Earmarked Reserves* – to fund specific projects or investments, or as a means to build up funds for known contingencies, e.g., the insurance reserve;

- *Ring-fenced Reserves* – carried forward balances or grant funding which have certain conditions or restrictions attached to them preventing their general use by the Council e.g., schools' balances, and;

- *Capital Reserves* – amounts held to finance capital expenditure e.g., receipts from asset disposals and capital grants.

9.6. The use of general and earmarked revenue reserves cannot be regarded as a sustainable long-term strategy to fill the gap from core funding reductions and budget pressures. This is because a usable reserve is a finite cash balance, which can only be used once whereas the reduction in core funding and budget pressures is a permanent year-on-year loss to the Council's base budget. However, reserves are a useful tool to manage issues over the short and medium term to allow time for proper consideration of any structural adjustments to the base budget that are needed.

<u>General Reserves</u>

9.7. In line with other Local Authorities and the law, the Council holds a general reserve on its balance sheet. The balance of this reserve as at 31 March 2023 was £60.4m. The Council holds this general reserve to:

- comply with the law;

- provide funds for emergencies or other unexpected requirements for funds;

- mitigate against risks faced in day-to-day operations;

- provide a balance to insulate it from the need to borrow on a short-term basis due to uneven cashflows.

<u>Section Statement and General Reserves Level</u>

9.8. As part of S25 of the Local Government Act 2003 the S151 officer is required to report on the adequacy of reserves as well as the robustness of the estimates used to compile the budget. This formal statement is included at appendix 6.

9.9. The Section 151 Officer considers that, through the financial planning process of the Council, the estimates are sufficiently robust for the purposes of the calculations of the budget and that the proposed financial balances and reserves over the medium term are adequate.

10. Council Tax, Business Rates, Levies and Precepts

Council Tax

10.1. The council tax base (the number of Band D equivalent properties estimated to be billable for the year 2024/25) was considered by Cabinet in December 2023 and approved by Full Council on 24 January 2024. The yield derived from the council's standard (Band D) charge is a multiple of the number of properties chargeable in each banding. The Council's tax base has increased from 135,955 to 137,295, raising an additional income of £0.640m due to increase in council tax base only.

10.2. Changes in the base arise due to new properties being brought into use; alterations to existing properties changing their valuation; and changes to the number of residents entitled to funding via the local council tax support scheme.

10.3. The table below summarises the Council Tax Base position for Westminster in 2024/25. It also includes the Council Tax element for Queens Park Community Council and Montpelier Square Garden Committee:

Financial Year	Queen's Park Community Council	Montpelier Square Garden Committee	Rest of the City of Westminster	Whole of the City of Westminster
2023/24	3,637.83	91.68	132,225.95	135,955.46
Change	62.57	5.28	1,272.33	1,340.18
2024/25	3,700.40	96.96	133,498.28	137,295.64

10.4. All other things being equal, the overall increase in the tax base has the impact of yielding additional revenue receipts without any change in the headline Band D chargeable rate. Every 1% growth in the base generates c£0.656m of council tax income.

10.5. The Local Government Finance Act (1992), as amended by the Localism Act (2011) requires local authorities to consider whether their relevant basic amount of council tax (effectively the Band D amount) is excessive. The Secretary of State has, under regulations, determined that an increase of more than a council tax threshold of 2.99% (excluding the Social Care precept) would constitute to an excessive increase for 2024/25 and would be subject to a referendum.

10.6. The table below sets out the additional income that would be generated by incremental increases up to the maximum level:

Modelled Changes to Band D	1%	1.50%	2.50%	2.99%	3.99%	4.99%
Band D 2023/24 (£)	477.91	477.91	477.91	477.91	477.91	477.91
Increase	4.78	7.17	11.95	14.29	19.07	23.85
Modelled Band D 2023/24 £	**482.69**	**485.08**	**489.86**	**492.20**	**496.98**	**501.76**
Additional Income £m	**0.656**	**0.984**	**1.640**	**1.962**	**2.618**	**3.274**

10.7. The schedules accompanying this report sets out the financial implications on the Council's overall budget of following the government assumption of a 2.99% increase for core services with 2% adult social care precept, totalling 4.99% for 2024/25. Cabinet is asked to recommend the proposed increase in the social care precept and general element of 2023/24 Band D council tax to Full Council.

10.8. The London Assembly is due to meet to consider the Mayor's proposed budget for the GLA for final approval on Thursday 22 February 2024. Currently, the Mayor's proposed budget recommends an increase to the 2024/25 Band D equivalent charge from £434.14 to £471.40, an increase of £37.26 rise in the adjusted Band D Precept (8.6%). The proposed precept for council taxpayers in the City of London is £166.27 (an increase of £24.26 which excludes the £13 element for the Met Police). The precept proposal assumes that the government accedes to the Mayor's request to adjust the 28 council tax excessiveness principles for the GLA (i.e., referendum limits) to accommodate an additional £20 rise to fund transport services in the final local government settlement. If this is not agreed, then the final precept figure may change.

10.9. Queen's Park Community Council notified the Council that their precept for 2024/25 will increase from £47.31 to £52.31 (Band D equivalent) an increase of £5.00 or 10.6%.

10.10. The Montpelier Square Garden Committee has notified the Council that their special expense for 2024/25 will not change. The Band D equivalent for 2023/25 will reduce from £680.63 to £643.56 due to an increase in the council tax base.

10.11. Local authorities have been granted additional powers from the Department for Levelling Up, Housing and Communities (DLUHC) to raise additional funding via an additional precept to support spending on Adults and Children's Social Care activities, which would otherwise have been unaffordable.

10.12. As set out in this report there are continuing growing pressures in social care services and so it is recommended that the council takes the opportunity to provide essential funding for these important services in line with the government thresholds. This report includes the recommendation of an increase of 2.00% per annum, the maximum allowed. It should be noted that the proposed budget includes additional spending on social care which exceeds precept increase.

10.13. The collective impact of the proposed changes discussed above to the Westminster Band D amount from an increase of 2.00% for Social Care and

2.99% general increase for 2024/25 is additional income of £3.274m as set out below:

Approved Band D 2023/24	**477.91**
4.99% Increase	23.85
Approved Band D 2024/25	**501.76**
Council Tax Base 2024/25	**137,295**
Increased rate (£)	23.85
Additional Income (£)	**3,274,486**

10.14. The table below summarises all the proposed changes to Council Tax and impacts on residents:

Band D Breakdown	Queen's Park Community Council	Montpelier Square Garden Committee	Rest of the City of Westminster
Precept	477.91	477.91	477.91
WCC: General Element @2.99% Increase (£)	14.29	14.29	14.29
WCC: ASC Precept @2.00% Increase (£)	9.56	9.56	9.56
Sub-Total	**501.76**	**501.76**	**501.76**
Greater London Authority Precept (£)	471.40	471.40	471.40
Queen's Park Community Council (£)	52.31	0.00	0.00
Montpelier Square Special Expense (£)	0.00	643.56	0.00
Total Band D Amount (£)	**1,025.47**	**1,616,72**	**973.16**

Band D Breakdown Yield	Queen's Park Community Council	Montpelier Square Garden Committee	Rest of the City of Westminster	Whole of the City of Westminster
2024/25 Council Tax Base (No. of Band D Equivalents)	**3,700.40**	**96.96**	**133,498.28**	**137,295.64**
Westminster City Council (£)	1,856,713	48,651	66,984,097	68,889,460
Greater London Authority Precept (£)	1,744,369	45,707	62,931,089	64,721,165
Queen's Park Community Council (£)	193,568	0	0	193,568
Montpelier Square Special Expense (£)	0	62,400	0	62,400
Total Band D Amount (£)	**3,794,649**	**156,757**	**129,915,186**	**133,866,593**

Council Tax Reduction Scheme

10.15. The Local Government Finance Act 2012 replaced the previous national Council Tax Benefit scheme with a new locally determined Council Tax Reduction Scheme (also known as a local Council Tax Support (CTS) scheme) from 2013.

10.16. Each local authority is required to annually set a local Council Tax Reduction scheme for working age claimants. The government continues to operate a statutory national scheme for pensioners, which provides them with broadly the same level of Council Tax Support as they received under the previous Council Tax Benefit scheme, but which has been adjusted by the government since its introduction to incorporate several welfare reform initiatives.

10.17. Since 2013/14, the Council has agreed a Council Tax Support scheme which mirrored the previous Council Tax Benefit scheme (i.e., a 100% scheme) despite resources from government being reduced by 10% at the time of transfer. This ensured the Council's working age claimants didn't have to pay more Council Tax. Technically this means that the original Council Tax Reduction Schemes (Default Scheme) Regulations are mirrored within the City Council's local scheme, with the addition that rates used to calculate the discount are uprated each year, and War Disabled Pensions, War Widow, Pensions and Armed Forces Compensation scheme payments are disregarded in full when calculating a claimant's income.

10.18. The Council recently approved the retention of the "100%" Council Tax Reduction scheme for the 2024/25 financial year. Whilst many other local authorities have reduced the level of their Council Tax Support (which means their CTS claimants must contribute more to Council tax), Westminster's decision will protect claimants locally. It is believed that Westminster will be one of only 8 local authorities in London to continue to have a 100% CTS scheme in 2024/25.

The Collection Fund

10.19. Statutory regulations require local authorities to account for annual council tax / business rates income in a different way to normal accounting arrangements as would apply if using International Financial Reporting Standards (IFRS). This means any variance between the originally estimated net council tax / business rates yield and what is achieved in year is not immediately recognised and is held on the balance sheet to be distributed in subsequent years. The effect of these regulations is that for 2024/25 the above estimates will represent the amount of income credited to the revenue account for that year regardless of the actual achieved.

10.20. The Council has reported a surplus in its business rates account since 2016/17. However, following the pandemic, the Council has been reporting a deficit since 2020/21. However, for 2023/24, the Council is estimating a surplus on its business rate account which has come about due to the anticipated release of funds held to finance the cost of business rate appeals on the 2017 rating list. This list has now closed and therefore further appeals cannot be lodged (except for exceptional circumstances). The current estimate of the cost of appeals yet to be decided upon by the Valuation Office Agency (VoA) is below that which we had set aside. This release will create a one-off injection of funds which will bring the Council just above the baseline level of income set by Government. Looking forward to 2024/25, the Council expects to revert to a below baseline position, in which it will lose 7.5% of its baseline funding, which amounts to £7.5m, before the Government safety net activates and funds any further shortfalls. The expected surplus generated in 2023/24 will be used to support this funding gap.

10.21. The Council has reported a surplus in its council tax account since 2015/16. However, following the pandemic the council reported a deficit in 2020/21, 2021/22 and 2022/23. The forecast for 2023/24 shows a return to a surplus position, but due to these historic deficits, the account is likely to remain in an overall deficit, which has been estimated at £1.5m. This deficit position as been realised in the 2024/25 budget but offset with a use of reserves to mitigate the impact, due to the one-off nature of this position. Looking forward, the Council expects to be in a surplus again for 2024/25.

Business Rates

10.22. The government confirmed that the Expanded Retail Discount for businesses would continue to apply in 2023/24 at 75% up to a maximum of £110,000 per business.

10.23. All the reliefs announced by government will be covered via S31 grant funding in the council's general fund with no loss to the council for providing the retail relief. As the collection fund accounting doesn't allow application of the S31 grant in year the Councils' reserves are used to smooth this.

Business Rates: The Collection Fund and Pooling

10.24. The Council was part of the 2018/19, 2019/20 and 2020/21 London Business Rates Pool. All London Borough Councils agreed to discontinue the London-wide pool for 2021/22 due to the volatility in business rates following the pandemic and expected reduction in business rates income. Therefore, Councils returned to the previous business rates share regime that allocated income based on the following proportions: WCC 30%, GLA 37% and central government 33%. In 2023/24 a smaller group of boroughs agreed to pool and this is likely to continue in 2024/25, but it is not beneficial for the pool for Westminster to be included because of the deficit the Council has.

10.25. Based on latest estimates it is forecast that the Council will go into the business rates safety net for 2024/25, in the same way it did in 2022/23. This means that the reduction in business rates income will be capped through the national system at 92.5% of the Council's business rates baseline. Therefore, the maximum exposure for Council is £7.5m per year. This can be covered by the anticipate one-off surplus position forecast for 2023/24, or the business rates risk reserve set aside in previous years of growth. This will therefore not impact on the general fund revenue budget.

Levies and Special Charges

10.26. Three bodies recover their net cost by way of a levy on local authorities – this charge is thus separately identified within the council tax charged by those local authorities. The three bodies are:

- Environment Agency – recover the cost of flood defence works across the Thames region;
- Lee Valley Regional Park Authority – recover the cost of running the Lee Valley Park facilities in the North West of London; and
- London Pensions Fund Authority – recover the pension costs arising from the abolition of the Greater London Council

10.27. At the time of writing this report, the Council is awaiting notifications from these three bodies to confirm the 2024/25 levies. Therefore, the 2023/24 levy charges are included in this report with an allowance for inflation. If the final amounts are different, then this will be covered by the corporate items budget.

11. Stakeholder Engagement

11.1. Engagement with communities forms an important part of the Council's business and financial planning process as part of an ongoing approach.

11.2. In future years, the administration intends to introduce forms of participatory budgeting to give residents control over allocation of budgeted spending.

12. Financial Implications

12.1. The financial implications are set out in the body of this report.

13. Legal Implications

13.1. The function of calculating the City Council's budget requirement and the City Council's element of the Council Tax, and the function of setting the Council Tax, are the responsibility of the full Council. The function of preparing estimates and calculations for submission to the full Council is the responsibility of the Cabinet.

13.2. In coming to decisions in relation to the revenue budget (and the Council Tax), the Council and its officers have various statutory duties. In general terms, the Council is required by the Local Government Finance Act 1992 to make estimates of gross Revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget (and Council Tax). The amount of the budget requirement must be sufficient to meet the City Council's legal and financial obligations, ensure the proper discharge of its statutory duties, and lead to a balanced budget.

13.3. The Council should be satisfied that the proposals put forward are a reasonably prudent use of resources in both the short and long term, and that the interests of both council taxpayers and ratepayers on the one hand and the users of Council services on the other are both considered.

13.4. Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the report of the Section 151 Officer on these issues when making decisions about its budget calculations. Attention is drawn to the report as set out in Section 10 where it is stated that the estimates are sufficiently robust for the purposes of the calculations and that the proposed financial balances and reserves over the medium term are adequate.

13.5. Some savings proposals may only be delivered after specific statutory or other legal procedures have been followed and/or consultation taken place. Where consultation is required, the Council cannot rule out the possibility that they may change their minds on the proposal because of the responses to a consultation, and further reports to Cabinet or cabinet member (as appropriate) may be required.

13.6. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. This is addressed in Section 16. In developing a final set of proposals for consideration, officers have had regard to how the equality duty can be fulfilled in relation to the proposals overall. However further detailed equality impact assessments may be required for specific proposals as identified by each directorate prior to final decisions being made.

13.7. Section 106, Local Government Finance Act 1992, applies to Members where:

- they are present at a meeting of the Council, the Cabinet or a Committee and at the time of the meeting an amount of Council Tax is payable by them and has remained unpaid for at least two months; and

- any budget or Council Tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

13.8. In these circumstances, any such Members shall at the meeting and as soon as practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter. Such Members are not debarred from speaking. Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

13.9. In relation to the use of General Fund and HRA (non-right to buy) capital receipts funds to fund transformation projects detailed in this report, the Council complies with the statutory guidance issued under section 15(1)(a) of the Local Government Act 2003.

13.10. Under powers contained in the Localism Act 2011, the Government can require compulsory referendums on Council Tax increases above limits it sets. For 2024/25, the referendum threshold is 2.99%. The proposal is within the threshold change: the Council will therefore not be required to hold a referendum.

13.11. In addition to the referendum threshold, the Government has also announced a threshold of an additional 2% for authorities with Social Care responsibilities. The borough needs to raise funding on this account for 2024/25 and is therefore proposing to implement the precept.

14. Climate Implications

14.1. The Council is delivering an ambitious programme of climate action in line with meeting our dual 2030 (council operations) and 2040 (citywide) net zero targets. This ongoing commitment is supported by funding in the council budget for projects that - directly or indirectly - deliver climate benefits.

14.2. As part of this process, the Council is working with the GLA and a cohort of London boroughs to explore the concept of climate budgeting. This process helps link organisational spend to the delivery of climate outcomes. For the Council, the initial aim is to better understand the costs of achieving net zero and determine how far the Council's identified actions move us towards our net zero 2030 target.

14.3. A high-level assessment has been undertaken as a first step at climate budgeting. This exercise has provided first order estimates for the costs of delivering climate-related projects and their associated carbon saving contributions. This is based on key projects and measures that are identified through the climate emergency action plan. The assessment includes:

- Scenario 1: Planned projects and measures scheduled for delivery with funding already approved. Approximately £70m of projects are included within capital budgets up to the 2025/26 budget period.

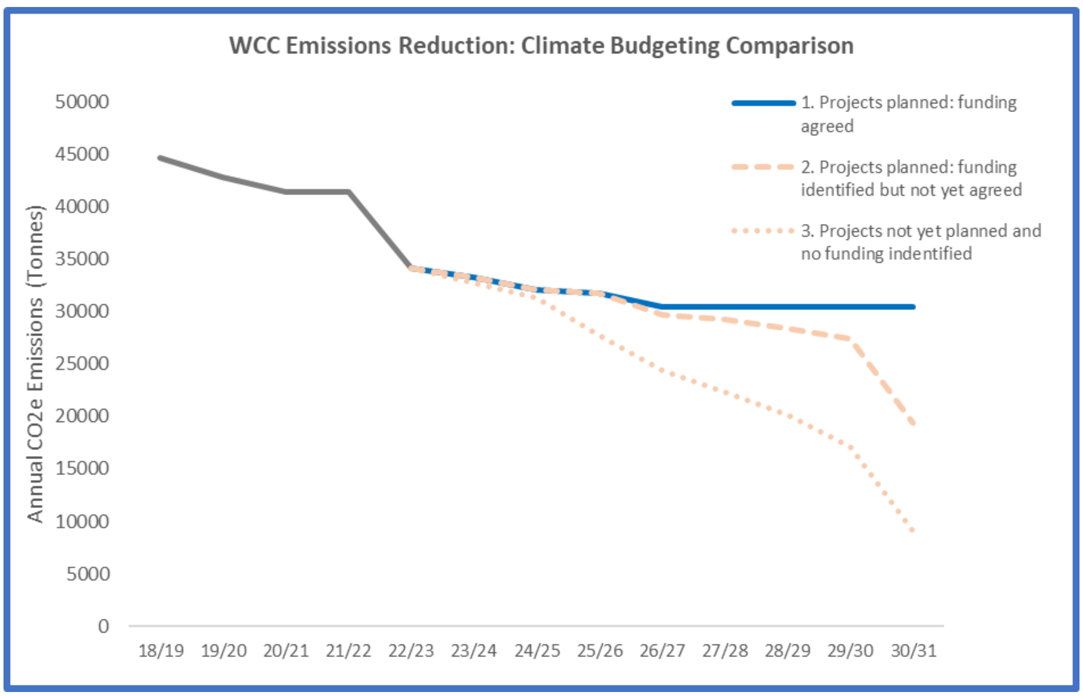
- Scenario 2: Key projects and measures that are planned, with funding needs identified but not yet agreed. Delivery is dependent on funding being secured.

- Scenario 3: Projects not yet planned and with no funding identified. Projects that could reduce emissions subject to further assessment and if additional funding can be found to unlock and accelerate delivery (e.g. proactive replacement of heating systems rather than at end of life).

14.4. The Council continues to track emissions across its corporate estate and activities on an annual basis. In 2018-19, the Council produced 44,619 tonnes of carbon dioxide equivalent (CO2e). As of 2022/23 reporting period, this has reduced by 23.5% to 34,161 tCO2e.

14.5. The carbon reduction measures with funding already agreed (Scenario 1) are estimated to reduce the Council's emissions to 30,420 tCO2e by 2030, a reduction of 32% from the 2018/19 baseline. If resources can be found to implement additional identified measures (Scenario 2), it is estimated the Council's overall emissions could be reduced to around 19,365 tCO2e per year by 2030-31, a reduction of 57%. Taking a highly ambitious approach to accelerate the feasibility and delivery of unplanned measures (Scenario 3) could potentially reduce total emissions to around 9,029 tCO2e, an 80% reduction on the baseline.

The calculations do not factor in wider national action (e.g. decarbonisation of the national grid) that will further reduce our emissions and support our progress to net zero.



14.6. The Council is supporting officers across the organisation to improve assessment of the carbon impact of our activities. This includes the development of a bespoke carbon impact evaluation tool to help determine the carbon implications of capital projects seeking funding. Further work is being delivered across the organisation to better embed climate considerations and decision-making across all levels of the Council. Climate budgeting is an important tool to support and supplement this work and should be prioritised to help to inform all key decisions moving forward.

14.7. In preparation for the 2025/26 budget review, the Council will continue to build on the climate budgeting exercise to increase the robustness of the data and outputs. Further work is being planned to:

a) Progress the climate budgeting process to improve the accuracy of our projected emissions savings

b) Fully understand the true cost of delivery and better capture the associated benefits (including carbon and cost savings) derived from the identified projects and measures.

c) Identify more projects that can contribute to the delivery of the net zero 2030 ambition across the Council's estate and activities. This includes both capital funded measures and revenue funded 'enabling' activities (i.e. actions that may not deliver direct emission reductions but enable further actions that support our net zero ambitions).

d) Identify wider external sources of funding that can contribute to delivery, building on the £17.3m of external grant funding secured to support climate delivery in 2023/24.

e) Determine the preferred offsetting approach and associated costs for addressing any residual emissions by 2030.

15. Equalities Impact Assessment

15.1. Under the Equalities Act 2010 the Council has a legal duty to pay "due regard" to the need to eliminate discrimination and promote equality about the protected characteristics of age, disability, gender reassignment, marriage/ civil partnership, pregnancy/ maternity, race, religion or belief and sexual orientation.

15.2. The equality duties do not prevent the Council from making difficult decisions such as reorganisations and relocations, redundancies, and service reductions nor do they stop the Council from making decisions which may affect one group more than another. The law requires that the duty to pay "due regard" be demonstrated in the decision-making process.

15.3. A screening of all budget measures has been undertaken to ensure that the equality duty has been considered where appropriate. Details of the Equality Impact Assessments (EIAs) are included in Appendix 7. Where it has been identified that a proposal may have an adverse impact on people who share a protected characteristic, an assessment of the impact has been undertaken to ensure that “due regard” is paid to the equality duties as required by statute. Where budget proposals required a full EIA to be undertaken, these have been published and shared with the Budget & Performance Task Group to ensure they form part of the budget scrutiny process.

16. Consultations

16.1. As part of the financial planning process the Council consulted with businesses and the responses have been considered as part of the proposed 2024/25 budget.

16.2. An assessment of whether individual saving proposals require consultations is set out in the papers presented to the Scrutiny Budget Task Group in November 2023.

Appendices

Appendix 1 – Council Tax Resolution

Appendix 2 – Budget Scrutiny Task Group Papers

Appendix 3 – Summary of Gross, Income and Net budgets

Appendix 4 – List of new savings

Appendix 5 – Service Pressures and Investments

Appendix 6 – Previously agreed savings

Appendix 7 – EIA Summary

Appendix 8 – S25 Report

Appendix 9 – CIPFA Financial Management Code 2024-25

Appendix 10 – Net Budget Trail

If you have any queries about this report or wish to inspect any of the background papers please contact:

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