



City of Westminster

CABINET

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| Decision Maker: | Cabinet |
| Date: | 13 July 2020 |
| Classification: | Open |
| Title: | Financial Planning – 2021/22 to 2023/24 |
| Wards Affected: | ALL |
| Key Decision: | Yes – on the forward plan |
| Financial Summary: | This report is setting out the financial framework for the budget setting cycle and medium term planning for this year. |
| Report of: | Gerald Almeroth, Executive Director – Finance & Resources |

1. Executive Summary

- 1.1. This report provides an update on the Council's medium-term financial position in order to inform the business and financial planning round for 2021/22. The report assesses the current financial impact result of Covid-19 and reviews other key financial assumptions together with national and local policy issues that the Council needs to consider in making its plans for the period. The report sets out an approach for the budget process that takes account of these and the requirement to identify savings options that fit within the overall policy and financial framework aligning resources to the Council's key policy objectives set out in the City for All.
- 1.2. The report updates the medium-term financial strategy reported to Full Council in March 2020. Assumptions have been reviewed and revised in this report and the planning horizon has been extended a further year to 2023/24. It is recognised that the current financial and economic conditions are continually changing as well as the government response to this, so it is proposed that a further report will come back to Members later in the year. The indicative projected funding gap at this stage and for planning purposes is £29.2m in 2021/22 rising to £91.3m by 2023/24.

2. Recommendations

- 2.1. To note the revised medium-term financial forecast to 2023/24 and to agree the budget process approach as set out in the report.

3. Reason for Decision

- 3.1. The preparation of the budget and three-year medium-term financial plan is the first stage of the annual business planning cycle for the forthcoming financial year 2021/22. There is a statutory requirement to set a balanced budget and submit budget returns to the Ministry of Housing, Communities and Local Government (MHCLG). Approval of the revenue estimates constitutes authority for the incurring of expenditure in accordance with approved policies.

4. Background

National Context

- 4.1. The Covid-19 pandemic has had a considerable impact on the Council and the City of Westminster. The government issued a national lockdown on 23 March 2020, which forced the majority of businesses in the Westminster to close. The repercussions of this was particularly significant on the West End which is the heart of the London economy with many theatres, bars, restaurants and retail establishments being forced to close. Visitors into Westminster – which is normally about one million a day, fell dramatically overnight.
- 4.2. The Council has had to adapt its working practices and operational priorities in order to respond to the pandemic. The most immediate priority was helping the residents and businesses of the City – particularly those vulnerable residents who may not have had support networks to assist them during a lockdown with social distancing enforced.
- 4.3. In responding to this public health crisis, the Council has taken steps to support its residents, businesses, supplier and the wider community over and above requirements from government. This has included parking dispensations for NHS staff and key workers and setting up Westminster Connects to provide volunteer opportunities to support our most affected residents.
- 4.4. Data from the ONS shows that the UK economy has reduced by a quarter since the pandemic began. GDP fell by 5.8% in March and then by a further 20.4% in April – a historic reduction in the economy. This reduction is approximately four times higher than the cumulative impact over one and half years of the financial crisis in 2008, which was 6%.
- 4.5. At a national level in responding to the pandemic the government have put in place a number of schemes to support businesses and individuals. However, this has significantly increased government borrowing. The Treasury has predicted that the UK's deficit is likely to reach £337bn this year, more than six times the £55m predicted at the budget in March.
- 4.6. These numbers present a bleak picture of the country's economy, but the impact on public finances is still very uncertain. Although the deficit has increased considerably and the government may need to borrow up to £300m this year (OBR estimate), this would increase the government's debt servicing by £3.5bn a year, not an insignificant amount, but this only represent a 0.4% increase in debt servicing.

- 4.7. After the one-year Spending Round in 2019, the government was planning for a Comprehensive Spending Review in July 2020, however on 24 March it was announced that this would be delayed in order to enable the government to focus on responding to the public health and economic emergency. It is expected however, that there will be a budget announcement in July in addition to the planned Autumn Budget statement.
- 4.8. Local Government was planning for the final consultation on the Fair Funding review in 2020, with implementation for the next financial year beginning in April 2021. This, alongside the revised model for the devolution of business rates, has also been postponed for at least a year.

5. Local Policy Context

Pre-Covid-19 Policy Context

6. City for All

- 6.1. In March of this year the Council refreshed its City for All Strategy to align it to the Council's key objectives. The three pillars of the Council's City for All programme of activity are:
- **Greener and Cleaner:** Tackling the climate emergency to create a better place now and to safeguard our city for future generations.
 - **Vibrant Communities:** Making the most of the opportunities in the City, supporting the economic recovery of businesses and well-being of residents, and building much needed housing for our residents.
 - **Smart City:** Using cutting edge technology to transform council services and improve peoples' lives.
- 6.2. The Council are reviewing the City for All objectives in light of the Covid-19 pandemic, responding to the changing needs of residents and businesses. This forms part of the Council's Renewal and Recovery Strategy set out later in this report.

7. Climate Emergency

- 7.1. Last year the Council declared a climate emergency and set out an ambitious target to be carbon neutral by 2030. Responding to this challenge requires ambitious proposals to reduce carbon emission from all Council departments and further assess which activities can be taken forward.
- 7.2. The Covid-19 pandemic provides an opportunity for the Council to review the way in which it works, how it uses its buildings and consider its environmental credentials. The Council's policies around its green agenda will form a key part of the MTFP but will also require investment. Therefore, as part of the financial planning report in March 2020 approval was given to create a £5m reserve as an initial step forward for investing in green initiatives.

Post Covid-19 Policy Context

8. Renewal and Recovery

- 8.1. The recovery from this public health crisis presents the Council with an opportunity to solve some of the City's most intractable problems – from rough sleeping to climate change as the world has changed the Council can look at which services it provides in light of what is most important to residents, businesses and communities.
- 8.2. The main challenges the Council will face going forward are:
- 8.2.1. **Exiting Lockdown** – how does the Council harness new and better ways of working; managing services in a long and phased release from lockdown; what is defined as the new BAU for Council services.
 - 8.2.2. **Economy and Business** – how does the Council get the right balance between local priorities and regional and national policies.
 - 8.2.3. **Long Term Future** – City for All, what does the Council stop, start, continue or rescope moving forward.
- 8.3. As part of the exiting of lockdown stream the Council has formulated an exit strategy that focusses on the following areas:
- **Movement Strategy** – reviewing the public realm and parking solutions to facilitate the reopening of the City, particularly the hospitality sector, given the impacts of social distancing;
 - **The Council: Reopening** – focussing on the re-opening of services in and staff returning to Council buildings;
 - **The City: Reopening** – research and analysis that forecasts the future of the City, e.g. visitors and commuters;
 - **Rough Sleeping** – assessing and delivering sustainable options for rough sleepers and hotel accommodation;
 - **Westminster Connects and Shielding** – reviewing the role of Westminster Connects going forward;
 - **Finance** – assessing the Council's overall financial position, reviewing the budget, costs of services and any possible future support for businesses and residents.
- 8.4. The MTFP will form a core component of the finance stream outlined above. All operational and strategic decisions going forward are intrinsically linked to the Council's finances and are not mutually exclusive.

9. Medium Term Financial Plan: 2020/21 to 2022/23

9.1. The MTFP approved at Full Council on 4 March 2020 outlined a total budget gap up to 2022/23 of £63.5m. This is summarised in the table below.

| Budget Gap | 2020/21 £'m | 2021/22 £'m | 2022/23 £'m | Total £'m |
|--|---------------|---------------|---------------|---------------|
| Estimated Core Funding Losses - Business Rates | 10.000 | 14.000 | 13.000 | 37.000 |
| London Business Rates Pool Estimated Gain / Growth | (0.600) | 0.000 | 0.000 | (0.600) |
| Council Tax Income | (3.004) | (0.570) | (0.576) | (4.150) |
| Other Grants: Social Care Grant | (9.154) | 0.000 | 0.000 | (9.154) |
| Other Grants: NHB Loss | 2.170 | 4.065 | 1.727 | 7.962 |
| Inflation: Pay | 2.397 | 2.445 | 2.494 | 7.336 |
| Inflation: Contract | 5.275 | 5.541 | 5.910 | 16.726 |
| Capital Financing | 2.500 | 2.600 | 2.700 | 7.800 |
| Corporate Pressures | 4.343 | 5.063 | 7.434 | 16.840 |
| My Westminster | 3.000 | (3.000) | 0.000 | 0.000 |
| Service Specific Pressures | 7.972 | 3.876 | 10.000 | 21.848 |
| Review of Budget Contingencies | (6.000) | 0.000 | 0.000 | (6.000) |
| Sub-Total | 18.899 | 34.020 | 42.689 | 95.607 |
| Savings Identified | (18.899) | (9.177) | (4.080) | (32.156) |
| Remaining Budget Gap | 0.000 | 24.843 | 38.609 | 63.451 |

9.2. A total budget gap of £95.6m was identified, with savings of £32.1m, which left a remaining budget gap for 2021/22 and 2022/23 of £63.5m.

10. 2020/21 Financial Position

- 10.1. The 2020/21 net budget is £180m which is inclusive of £18.9m of savings that were identified for this year.
- 10.2. The P2 monitoring report set out that there was an adverse variance of £17.5m to the end of May, which was largely offset by the two tranches of government support provided so far totalling £16.5m. Given the level of uncertainty about the future it is very difficult to accurately forecast the impact for the rest of the year, however an indicative range of between £50-60m was outlined. This excludes any government grant. The main reasons for this variation are:
- income losses arising from the Covid-19 pandemic;
 - additional unbudgeted expenditure arising from the Covid-19 pandemic;
 - savings no longer achievable in 2020/21 due to the pandemic or other operational reasons.
- 10.3. The Council currently holds unallocated reserves of £63m, which would need to be utilised to fund any net overspend this financial year that is not covered by further government financial support. It is recommended that the plans going forward include a provision for building this reserve back up.

11. Further Government Financial Support

- 11.1. On 2 July 2020 the government announced further funding and financial support for local authorities. These were:

- £500m of unringfenced grant funding for local authorities across England
 - A new scheme to help reimburse local authorities for lost income during the pandemic and boost cashflow for local authorities.
- 11.2. The £500m of unringfenced funding is similar to the first two tranches of government support and is likely to focus on additional financial burdens that have arisen from the pandemic. For example, to cover additional costs for social care, rough sleeping and PPE.
- 11.3. The new scheme to reimburse local authorities for income losses is predicated on Councils covering the first 5% of income losses from sales, fees and charges and the government will reimburse councils for 75% thereafter.
- 11.4. There has also been an announcement that any preceptor deficits on a council's Collection Fund (the fund through which business rates and council tax is accounted for) can be paid over three years rather than all in one year. This will provide a cashflow boost to many local authorities.
- 11.5. Further details of these financial support measures are still being worked through and members will be informed when allocations are announced and how this will impact on Westminster's 2020/21 financial position.

12. Medium-Term Financial Plan: 2021/22 to 2023/24

- 12.1. The assumptions in the current plans have now been reviewed and are shown in the table below. The plan has also been a year to 2023/24. The revised budget gap for 2021/22 is £29.2m and £91.4m over the three-year period as outlined in the table below:

| | 2021/22 over 2020/21 £'m | 2022/23 over 2021/22 £'m | 2023/24 over 2022/23 £'m | Total | Comments |
|--|--------------------------|--------------------------|--------------------------|---------------|--|
| Funding Gap - as agreed by Full Council | 24.843 | 38.609 | 0.000 | 63.452 | |
| Core Funding Losses - Business Rates | (14.000) | (4.000) | 8.300 | (9.700) | Delay in funding review and reduced impact |
| London Business Rates Pool Gain / Growth | 0.000 | 0.000 | (0.500) | (0.500) | |
| Council Tax Income | 0.870 | (0.300) | (0.876) | (0.306) | No Council Tax growth due to covid19 |
| Other Grants: NHB Loss | (1.929) | 0.610 | 1.727 | 0.408 | Prior year assumption was too pessimistic |
| Inflation: Pay | 0.000 | 0.000 | 2.500 | 2.500 | |
| Inflation: Non Pay | (3.541) | (3.910) | 2.000 | (5.451) | Prior year assumption was too pessimistic |
| Capital Financing | 0.000 | 0.000 | 3.000 | 3.000 | |
| Corporate Pressures | 0.000 | 0.000 | 5.000 | 5.000 | |
| COVID19 Pressures | 20.000 | 0.000 | 0.000 | 20.000 | New, reduction in income due to covid |
| Service Specific Pressures | 3.000 | (5.000) | 5.000 | 3.000 | |
| Build back of unallocated reserves | 0.000 | 5.000 | 5.000 | 10.000 | New, top up reserves back to normal levels |
| Revised Funding Gap | 29.243 | 31.009 | 31.151 | 91.403 | |

- 12.2. The budget gap for 2021/22 has increased by £4.4m and reduced by approximately £7.6m in the year after. Over the three-year period the budget gap has increased by £28.0m. The main reasons for this are:

12.2.1. Adjustments to existing assumptions (net reduction of £3.2m) due to:

- assumed government funding – favourable reduction of £18m, largely from the Fair Funding Review being delayed;
- indicative sum for the ongoing cost impact of Covid-19 of £20m;
- non-pay inflation – reduction of £7.5m as previous provision has been overly pessimistic;
- other net favourable reductions - £2.7m (including revised estimates of new homes bonus), and;
- provision of a sum to replenish reserves at £5m.

12.2.2. One-year extension of the plan to 2023/24 (net £31.2m) due to:

- assumed government funding reductions, inflation, corporate and service pressures and a planned increase in capital financing; partially offset by an estimated increase in the council tax base.

12.3. Since the onset of the pandemic, the greatest financial pressure the Council has faced is on its income from sales, fees and charges mainly related to the significantly reduced economic activity. Current year forecasts are still very uncertain, however, it is expected that conditions and therefore income will not be back to pre-Covid levels for quite some time, if at all and therefore an indicative planning assumption of £20m impact is included. This represents just over 10% of the Councils income from services.

13. Approach to Identifying Saving Options

- 13.1. Planning financially over the medium-term period enables the Council to review proposals within a reasonable timescale and can ensure proper consideration and consultation takes place. It is clear however, that in the current financial climate the challenge is going to be more difficult and therefore proposals will need to be implemented at pace once approved.
- 13.2. In the past the Council has been able to generate a high proportion of its savings from its commercial and service activities. Two thirds of the savings proposals approved in the current plans are from additional income, which is significantly higher than the average in London. These proposals will need to be reviewed in light of the prevailing economic conditions as well ensuring any new proposals that come forward for additional income are robust and realistic.
- 13.3. It is important that the Council's resources are prioritised to achieve its key policy objectives, particularly the City for All. Savings options will need to come forward that are resilient and create long term financial sustainability in a new post pandemic world and therefore aligning to the Renewal and Recovery Programme will also be important.
- 13.4. As the Council progresses with its culture change programme with the Westminster Way, collaboration across services that focus on delivering key outcomes against evidenced need will have resources prioritised towards them.

- 13.5. The Council is aiming to embrace new ways of working, be ambitious about its digital programme, reduce areas of unnecessary regulation, rethink the way some services are delivered and embrace more volunteering and community-based delivery of outcomes in line with the Westminster Connects model.

14. Capital Strategy Review

- 14.1. The Council has worked hard to keep its development sites open and working during the pandemic, however, inevitably there has been an impact with delays in projects that have been affected by the lockdown restrictions and social distancing. These delays will mean that projects will complete later than planned and this will create slippage in the capital programme.
- 14.2. External capital funding will be uncertain in the immediate future, in particular some highways schemes have already had planned funding withdrawn. However, it is also possible that there will be opportunities as significant investment will be needed to assist in supporting economic recovery. The Council will need to be ready to take full advantage of these opportunities as these arise.
- 14.3. The Council has an ambitious capital programme, nearly £1.5bn over the next 15 years, investing in delivery of new affordable homes as well as significant public realm schemes such as the Oxford Street District programme. The capital strategy review will be important in ensuring that all schemes are prioritised to support the delivery of key policy objectives, particularly City for All priorities such as the climate change agenda.
- 14.4. The capital strategy is financed in a number of different ways and this includes an increasing amount of revenue borrowing. As such, it is of particular importance that all schemes within the programme are aligned to achieving key policy objectives, are maximising any external funding opportunities and are delivering a financial return where possible. An increased capital programme could not be achieved unless there were more revenue savings to finance further borrowing.

15. Timelines

15.1. A broad timeline is set out below:

| Group | Month | Comments |
|------------------------------|-----------------------|--|
| Cabinet | 13 July 2020 | Financial planning report – review assumptions, set out initial three year budget gap and agree savings approach |
| ELT | July to August | ELT, directors and officers to review and identify saving options |
| Scrutiny – Budget Task Group | September | Scrutiny of early savings proposals |
| Cabinet | 12 October 2020 | Financial planning update including early savings proposals |
| ELT | September to November | ELT, directors and officers to review and identify further saving options |
| Scrutiny - Budget Task Group | January | Scrutiny of the MTFP and saving options put forward. |
| Cabinet | 8 February 2021 | Agree and approve the overall 2021/22 budget and three year MTFP |
| Full Council | 3 March 2021 | Agree and approve the 2021/22 budget and three year MTFP |

16. Legal Implications

- 16.1. This report is submitted to the Cabinet in accordance with the Finance procedure rules. Cabinet are asked to note the revised medium term financial forecast to 2023/24 and to agree the budget process approach as set out in the report.
- 16.2. 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.
- 16.3. The report sets out a timetable to agree and approve the overall 2021/22 budget and three year MTFP and to agree and approve the 2021/22 budget and three year MTFP.

- 16.4. 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.
- 16.5. The Council has a statutory duty to have regard to the report of the Chief Finance Officer on these issues when making decisions about its budget calculations.
- 16.6. 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 as a result of the responses to a consultation, and further reports to Cabinet or cabinet member (as appropriate) may be required.
- 16.7. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act.
- 16.8. If General Fund Reserves are used to support the budget they will need to be reimbursed at the earliest opportunity to provide the necessary, margin of safety in future years

17. Consultations

- 17.1. No specific consultations resulting from this report. However, individual saving proposals could be required to go through a consultation process.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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BACKGROUND PAPERS

Business and Financial Planning 2020/21 to 2022/23 (Cabinet, 10 February 2020)