



City of Westminster

CABINET

Decision Maker:	Cabinet
Date:	12 July 2021
Classification:	Open
Title:	Financial Planning - 2022/23 to 2024/25
Wards Affected:	All
Key Decision:	Yes
Financial Summary:	This report sets out the financial framework for the budget setting cycle and medium term financial planning for this year
Report of	Gerald Almeroth, Executive Director – Finance and Resources

1. Executive Summary

- 1.1. This report outlines the Council's updated financial position over the next three years and provides the financial framework for the Council to deliver its key policy objectives set out in its *City for All* strategy. The Covid-19 pandemic continues to be the dominant feature on the Council's financial planning which has impacted both the Council's local service delivery priorities and also the macro-economic landscape which will impact the Council's future funding position. At the time of this report, the UK remains under a phase of the national lockdown conditions. The speed of economic recovery following full relaxation of any remaining restrictions remains uncertain.
- 1.2. This report updates the medium-term budget assumptions approved at Full Council in March 2021 and extends it a further year to 2024/25. The funding position for local government is still undetermined at this point and will be impacted by several central government policy initiatives due over the coming calendar year including the Comprehensive Spending Review and the Fair Funding Review. The financial position has been updated and provides an indicative position for planning purposes and shows a budget gap of £10.9m in 2022/23, rising to £51.3m by 2024/25.

2. Recommendations

2.1. To note the revised medium-term financial planning forecast to 2024/25 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 2022/23. 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. National Context

4.1. The Covid-19 pandemic has had a significant public health and financial impact on the Council and the City of Westminster since the initial national lockdown announced on 23 March 2020. Over that period the Council has focused its efforts to protect the most vulnerable residents in the City and support businesses.

4.2. The financial impact across Westminster has been considerable, with many businesses remaining closed or needing to adhere to strict reopening criteria as the UK emerges from the remaining lockdown phases. Throughout the last year, many businesses in the City have received business rates support mainly in the retail, hospitality and leisure sectors, where c£1bn of reliefs were provided. Furthermore, the Council distributed more than £200m in additional grants to eligible businesses to support them through this difficult time.

4.3. The Office of Budget Responsibility (OBR) estimates public sector borrowing to have totalled £299bn in 2020/21, roughly double the amount at the height of the financial crisis in 2009/10 and an increase of £246bn on 2019/20. This is partly tax yield being reduced, but also the costs of government direct support, including the job retention (furlough) scheme which continues to support 3.4m employees, having peaked at 5.1m in January 2021. The furlough scheme begins to taper from 1 July and is currently planned to cease after 30 September 2021.

4.4. National economic output fell by almost 10% in 2020/21 and impacted Westminster's income levels significantly. While this was offset through the Government's SFC compensation scheme, the risks remain, and expectations are that areas such as the West End will take a couple of years to return to pre-pandemic levels in line with government's predictions.

- 4.5. The impact of increased public sector borrowing on the future of local government funding allocations remains uncertain. In the March Budget, the Chancellor signalled a reduction in public spending for unprotected departments of £2.6bn (3%) in 2022/23.
- 4.6. The government is planning a Comprehensive Spending Review over the summer, which will provide the envelope for medium term spending plans over the next three years aligned to government policy. It is hoped that this will lead to a multi-year finance settlement for local government. Additionally, the Ministry of Housing, Communities and Local Government (MHCLG) is set to continue with its Fair Funding Review which seeks to reset the formula that drives core funding across authorities, based on need and resources. The timing of implementation is uncertain but remains officially planned for 2022/23 and therefore assumptions in the plans have been made for this impact.
- 4.7. Government have also signalled that they will report back in the Autumn on the fundamental review of business rates, business rates reset within the finance system as well as Adult Social Care funding.

5. City for All

- 5.1. Due to the impacts of Covid-19 the Council adapted the City for All strategy for 2021/22 to incorporate economic recovery and tackling health inequalities. As part of this, it created a new, fourth pillar to the strategy named “Thriving Economy”. This outlines a programme of economic recovery work benefitting residents and businesses, complementing the existing “Greener & Cleaner”, “Vibrant Communities,” and “Smart City” pillars.
- 5.2. The key outcomes we want to achieve through City for All and its four pillars are:
- An economy that supports businesses and communities through employment, training and leisure opportunities
 - A net zero carbon Council by 2030 and a net zero carbon city by 2040
 - An inclusive place, reduced inequalities, care provided to those who need it the most
 - Improved service provision and value for money using modern technology

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

6.1. The MTFP approved at Full Council on 3 March 2021 outlined a total budget gap up to 2023/24 of £43.1m. This is summarised in the table below:

	2021/22	2022/23	2023/24	TOTAL
Annual Budget Gap	0.000	22.374	20.706	43.080

6.2. The £43m budget gap is inclusive of £31.8m savings to 2023/24 which were approved by Full Council in March 2021. The updated budget gap assumes that these savings will be delivered in full. Work on these savings needs to continue to throughout the year the meet the budget gap.

7. Update: Current Financial Position

7.1. The General Fund outturn position for 2020/21 was a net outturn of £3.8m (2.1%) overspend against an approved budget of £180m. The Council used its general reserve balance to absorb the final year-end position. It should be noted that this was a favourable position compared to earlier forecasts due to use of Covid specific grants.

7.2. The current forecast for 2021/22 is a balanced position against the budget. This takes account of ongoing government support for the impact of the pandemic this year, however this remains difficult to accurately predict given recent extensions of the phases for lifting restrictions of lockdown.

7.3. Within the net forecast position is the £9m Covid-19 general grant. The Council also holds specific government grants and contributions which it will continue to use to reduce any future pressures as the country exits lockdown and the Council supports the businesses in Westminster to reopened fully in line with government public health guidance.

7.4. At period 2 the Council anticipates a £1.2m adverse variance against its income budgets. This variance remains after the last budget cycle adjusted income budgets by £24m in 2021/22 to reflect the Government's forecasts on economic recovery.

7.5. Income volatility remains one of the biggest risks both this year and over the medium-term as it is expected that footfall will remain significantly lower than pre-pandemic levels. The government extended its sales, fees and charges income compensation scheme (whereby government reimburses c75% of income losses after the first 5%) only to the end of June, so currently the Council will be required to absorb any income losses from July onwards, which has been built into the plans. Local government groups are requesting that this is extended further though.

7.6. The Council holds £59m in unallocated General Fund reserves, which may be utilised to fund any net overspend this financial year which is not covered by Government financial support. The Council does hold Covid-specific funding, retained from Government financial support provided last financial year, that it will seek to utilise before any unallocated reserves are used.

8. Medium Term Financial Plan: 2022/23 to 2024/25

8.1. The assumptions in the medium-term financial plans have been reviewed up to 2024/25 and the revised position is outlined in the table below. The budget gap is estimated to be £51.3m up to 2024/25, which represents 7.8% of the Council's gross core 2021/22 budget

	2022/23 over 2021/22 £'m	2023/24 over 2022/23 £'m	2024/25 over 2023/24 £'m	Total
Funding Gap - as agreed by Full Council	22.374	20.706	0.000	43.080
Core Funding Losses	0.100	0.800	9.100	10.000
New Homes Bonus - continuation of scheme	0.000	(1.440)	(1.440)	(2.880)
Council Tax Prior Year Deficit	0.160	0.000	0.000	0.160
Council Tax Base Growth	0.000	0.000	(0.876)	(0.876)
Corporate and Service Pressures additional year	0.000	0.000	13.500	13.500
Total	22.633	20.066	20.284	62.983
Other Adjustments				
Concessionary fares	(1.700)	0.000	0.000	(1.700)
Final pension deficit payment	(10.000)	0.000	0.000	(10.000)
Total	(11.700)	0.000	0.000	(11.700)
Grand Total	10.933	20.066	20.284	51.283
Annual Gross Budget (£m)				658.00
Total gap as a % of annual gross budget				7.8%

8.2. The 2022/23 budget gap has reduced by £11.7m, while 2023/24 has reduced by c£0.7m. The refreshed MTFP shows a £8.2m increase in the budget gap over its three-year horizon and now totals £51.3m.

8.3. Reasons for the changes in the 2022/23 and 2023/24 budget gap are outlined below:

- Changes in core funding assumptions increase the gap by c£1m over two years;
- A reduction following an improved estimated position of £1.4m for New Homes Bonus (NHB) funding. Originally estimated to be fully abolished, a recent MHCLG consultation means that it is now expected that NHB will continue;
- A forecast deficit in Council Tax of £0.16m due to Covid which is expected to phase out over the MTFP timeframe;
- A £1.7m reduction in annual cost of concessionary fares payable to TfL following reduction in usage over the last year;
- The Council has committed to pre-pay its pension deficit in 2021/22, which will reduce ongoing salary on-costs by £10m per annum.

8.4. The annual MTFP refresh also includes extending it for a further year to 2024/25. This estimates an annual structural deficit of £20.3m arising from a further year in core funding losses, inflationary pressures, corporate and capital financing increases, partially offset by small increases in income from council tax base growth and New Homes Bonus.

8.5. The MTFP maintains its income modelling assumptions in line with Government forecasts of economic recovery and may revise those assumptions as the UK exits the remaining phases of lockdown.

8.6. As stated in the March budget report, options for reducing the Pension Fund deficit have been explored and it is now proposed to make a one-off payment of £80m as a cash contribution to increase the funding level of the Council's share of Pension Fund from 86% to 100%. This will reduce the interest cost payable over the long term as well as generate a saving in the revenue budget for deficit repayments from 2022/23 onwards. The accounting treatment of this has been agreed with the Council's external auditor.

8.7. The Council's reserves are considered robust to counter any risks in the budget over the three-year period. As well as maintaining reserve levels to mitigate risks, the Council also maintains reserves to assist in its City for All objectives – such as Climate Change and Smart City specific reserves – and invests reserves into projects that will deliver ongoing savings to reduce the budget gap. Drawdown of reserves to finance any expenditure relating to these objectives will be subject to the approval of the s151 officer as per the financial regulations.

9. Approach to identifying new savings and implementing current proposals

- 9.1. With respect to new savings, Executive Directors and their teams will be working collaboratively to identify opportunities for delivering both near term efficiencies and medium-term transformational change. Efficiencies in the near term are expected to include a focus on demand management interventions, greater automation, more use of data and intelligence to help identify new opportunities for efficiency, and continued property asset rationalisation. Transformational change will include digital innovation across services, use of advanced and predictive analytics to support deeper automation and operational targeting, prevention-based service redesign, and a highly collaborative approach across the organisation and its partners to find cost-reduction solutions whilst still delivering key outcomes. Invest-to-save opportunities will be encouraged as part of the approach for both revenue and capital.
- 9.2. Delivery of existing savings commitments remains a key priority to ensure the Medium Term Financial Plan does not become an even greater challenge. We have tightened up the monitoring of our delivery portfolio, to ensure strategic alignment and value for money. These commitments are regularly monitored with available support from teams with relevant expertise to help overcome any barriers to delivery.

10. Capital Strategy Review

- 10.1. The pandemic has impacted the Council's capital programme delivery timeframes and these delays have been reported in the Council's capital 2020/21 outturn. Continuing lockdown restrictions and social distancing measure meant that some projects would complete later than planned.
- 10.2. Rolling capital programmes that ordinarily attract external funding face uncertainty in the immediate future as that funding may not be forthcoming. The Council will continue to seek opportunities to obtain external funding to continue to deliver against its *City for All* objectives. One example is the recent success in obtaining a £13m grant from the Department for Business, Energy and Industrial Strategy (BEIS) to support delivery of the Council's decarbonisation strategy for its corporate property assets.
- 10.3. Despite the challenges caused by the pandemic, the Council has retained ambition in its capital programme; £1.6bn over 15 years, including investing in delivery of affordable homes and major public realm schemes across the City.
- 10.4. The capital programme is financed in a number of ways, including through an increasing amount of revenue borrowing, towards which the MTFP allocates funding. Any increases in the net capital programme budget would require additional revenue savings to finance it which therefore acts as a limiting factor for the size of the programme.

11. HRA Business Plan

11.1. The HRA Business Plan approved at Full Council on 3 March 2021, presented an overall balanced HRA budget position. The 2021/22 budgeted position is for a £0.855m deficit in year, though this in-year position improves in the short to medium term, with surplus positions forecast in 2024/25 and 2025/26.

11.2. Although the HRA Business Plan presents a balanced position currently, there are several areas that need to be considered for future budgeting that will result in financial pressures on the HRA and which are being reviewed in line with the budget timetable. These include dealing with the impact of national policy changes such as with the Fire Safety Bill, and the Building Safety Bill, as well as local aspirations in areas such as regeneration and development, as well as improving the HRA's contribution towards Westminster's carbon reduction commitment. These priorities will be considered whilst also delivering the business as usual requirement to deliver services to our residents and ensure that their homes are maintained to an appropriate standard.

11.3. Whilst work will need to be undertaken to refine the anticipated costs of these various pressures, the HRA will need to identify savings in its expenditure budgets, whilst also looking to maximise income streams where possible.

12. Timelines

12.1. The broad timeline of this year's budget setting cycle is outlined in the table below:

Group	Month	Comments
Cabinet	12 July 2021	Financial planning report – review assumptions, set out initial three-year budget gap and agree savings approach
ELT	July to September 2021	ELT, directors and officers to review and identify saving options – ELT savings sign-off
Budget and Performance Scrutiny Task Group	Late January 2022	Scrutiny of the MTP and saving options put forward.
Cabinet	15 February 2022	Agree and approve the 2021/22 budget and three-year MTP
Full Council	2 March 2022	Agree and approve the 2021/22 budget and three-year MTP

13. Legal Implications

- 13.1. This report is submitted to the Cabinet in accordance with the Finance procedure rules. Cabinet is asked to note the revised medium term financial forecast to 2024/25 and to agree the budget process approach as set out in the report.
- 13.2. 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.
- 13.3. The report sets out a timetable to agree and approve the overall 2022/23 budget and three-year MTFP and to agree and approve the 2022/23 budget and three-year MTFP.
- 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.
- 13.5. 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.
- 13.6. 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 because of the responses to a consultation, and further reports to Cabinet or cabinet member (as appropriate) may be required.
- 13.7. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act.
- 13.8. 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

14. Consultations

- 14.1. No specific consultations resulting from this report. However, individual savings 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:

Jake Bacchus, Director of Corporate Finance

jbacchus@westminster.gov.uk; 07811 723047

BACKGROUND PAPERS

- Medium-Term Financial Plan 2021/22 to 2023/24 (Cabinet, 15 February 2021)