



City of Westminster

CABINET

Decision Maker:	<i>Cabinet</i>
Date:	28 th October 2020
Classification:	<i>Open</i>
Title:	<i>Medium Term Financial Plan 2021/22 to 2023/24 Update Report</i>
Wards Affected:	ALL
Key Decision:	Yes – included on forward plan
Financial Summary:	In July 2020 Cabinet considered an overview of the Council's Medium-Term Financial Plan which estimated a budget gap of £91m with a £29m gap in 2021/22. Initial service efficiencies of £5.6m have been identified. However, this still leaves a significant budget gap over the next three years and this report sets out the Council's approach to identifying savings.
Report of:	Gerald Almeroth, Executive Directorate – Finance and Resources

1. Executive Summary

- 1.1. In July 2020 Cabinet considered an overview of the Council's Medium-Term Financial Plan (MTFP) and budget gap over the next three years.
- 1.2. The report outlined the current financial and economic environment in which the Council is operating, impacted significantly by Covid, and together with the local policy context set out an approach to identifying savings. The estimated budget gap over the planning period is £91m with a £29m gap in the first year.
- 1.3. There is significant uncertainty in the current time, but it is clear the Council has a significant financial challenge in setting a balanced and sustainable revenue budget going forward.

- 1.4. This report provides an update to Members on the financial and economic environment, the latest government support and policy, progress on the overall budget process and savings proposals identified to date.

2. Recommendations

- 2.1. That Cabinet note the financial planning update including the latest government funding position.
- 2.2. That Cabinet approve the savings proposals listed in Appendix 1, subject to equalities impact assessments and consultation requirements where appropriate.
- 2.3. That Cabinet note the approach to identifying further savings for 2021/22 to 2023/24.

3. Reasons 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. National Context

The Economy/Public Finances

- 4.1. The pandemic has had a considerable impact on the UK economy. Data from August shows that the UK economy suffered a bigger economic slump than any other major European economy in the second quarter of the year shrinking by a fifth – with contractions across all sectors.
- 4.2. In terms of the public finances, over the first four months of the financial year HM Treasury collected approximately 30% less in cash receipts while spending by central government rose by 54% in comparison to the same period last year.
- 4.3. Based on the above it comes as no surprise that the ONS have also reported that UK public sector debt has risen to over £2tn, with borrowing now at its highest level during peacetimes, with the OBR estimating that the government will borrow up to £370bn during this financial year.
- 4.4. On the 23 September it was also announced that the Chancellor of the Exchequer would be postponing the budget which was scheduled for this autumn and this also raises doubts over the Comprehensive Spending Review which was also due this autumn, which would have set out the government's spending plans over the next three years.

- 4.5. These factors mean there is still a great deal of uncertainty over the state of the public finances and how this may affect the settlement for local government.

Lockdown/Social Distancing

- 4.6. At a national level lock down measures had begun to ease over July and August – aside from local lockdowns in the Midlands and North West. Children returned to schools in September and the government were encouraging office workers to return to work.
- 4.7. However, a spike in infection rates since the middle of September has led the government to impose new restrictions. This includes limiting social gatherings, and requiring all hospitality venues to close by 10pm, as well as encouraging office workers to continue working from home if possible. The government have said this could last through the winter and for up to six months and have recently introduced a three tier system for restrictions. London has moved into tier 2 and this will inevitably impact footfall into the City and have a negative impact on businesses within Westminster and on the Council itself.
- 4.8. The Council is responsible for implementing local outbreak control plans if a second wave comes through. Funding has been provided through track and trace grant of £2.9m for Westminster.

5. 2020/21 Financial Position

- 5.1. As at period 5 (August 2020) the Council is reporting a forecast overspend on its revenue budget of £50-60m. This is summarised in the table below:

ELT Portfolio	FY Budget (£m)	FY Forecast (£m)	FY Variance (£m)	P5 YTD Variance (£m)	Risks Identified (£m)	Opps Identified (£m)	Projected Variance inc Opps and Risks (£m)
Adult Social Care	53.467	55.067	1.600	0.700	-	-	1.600
Public Health	(1.029)	(1.029)	-	-	-	-	-
Growth, Planning & Housing	19.157	28.348	9.200	3.300	-	(0.400)	8.800
Finance and Resources	57.820	60.665	5.900	3.800	10.700	(0.800)	15.800
Environment and City Management	(0.983)	25.839	26.800	18.200	3.100	(3.200)	26.700
Children's Services	39.300	42.566	3.300	0.200	0.600	-	3.900
Innovation and Change	5.769	8.769	3.000	-	-	-	3.000
Other Corporate Directorates	6.476	6.646	0.200	2.200	-	-	0.200
NET CONTROLLABLE BUDGET	179.977	226.871	50.000	28.400	14.400	(4.400)	60.000
Council Tax	(59.477)	(59.477)	-				
Business Rates - Net of Tariff	(120.501)	(120.501)	-				
CORPORATE FINANCING	(179.977)	(179.977)	-				
Covid-19 Grant Funding			(19.709)				
Net (Surplus) / Deficit*			30.291				

- 5.2. The forecast net deficit position of at least £30.3m is inclusive of general Covid-19 grant funding, but excludes any assumptions around the government's income reimbursement scheme for local authorities. Any net overspend (after taking account of specific government funding for Covid-19) would have to be met from the Council's general reserves which has balance of £63.3m at the start of this financial year.
- 5.3. Business Rates and Council Tax collection rates have dropped by 10% and 5% respectively, in comparison to this point last year. Funding losses on Business rates are based on the pool and as a result will be capped at £6.8m. Any losses on business rates will be funded via the business rates reserves, but can be spread over three years in the collection fund with a new flexibility introduced by government.
- 5.4. A pay award of 2.75% has also been agreed for this year, above the 2% provided in the budget for inflation, funded from corporate contingency as part of planned risk management strategy. Risk items will be reviewed as part of the budget process and will include looking at items previously provided for population growth and London Living Wage.

6. Government Financial Support

- 6.1. At the time of Cabinet report in July, the government had announced two new measures to support local authorities financially with impact of the pandemic:
- £500m of unringfenced grant funding - the Council received £3.2m of this funding, taking the Council's total Covid-19 grant funding to £19.6m and;
 - An income reimburse scheme where local authorities would be reimbursed for 75% of all eligible sales, fees and charges income losses after local authorities absorb the first 5% of these losses.
- 6.2. The government have recently announced further funding:
- £0.5bn of tiered funding for containment and outbreak management. To be allocated as follows - £1 per person for tier 1, £3 per person in tier 2 and £8 per person for tier 3. As the Council is now in tier 2, £3 per person would equate to c£750k.
 - A fourth tranche of funding of £1bn for local government. Allocation details are not yet available, but like the first three tranches, this is expected to be unringfenced and will go towards reducing the net financial impact for 2020/21.
- 6.3. Details of the income reimbursement scheme were published at the end of August with the first return submitted to government at the end of September. The scheme is a principles based one for net losses related to the provision of local services and will not include items such as commercial rent income. The

Council has claimed £7.4m as part of its first claim, which is for the first four months of the year. This represents 75p in the pound of the net loss after the first 5% in accordance with the scheme. It is estimated that the Council could receive between £15-20m for the full financial year from this scheme.

7. Savings Approach and Proposals

7.1. As outlined in the report to Cabinet in July the Council have previously been very reliant on generating additional income in order to meet saving targets. However, due to the impact of the pandemic on the Council's income streams this is not an approach that can continue to be relied upon.

7.2. The Council is taking a multi-faceted approach to identify savings proposals:

- Initial service efficiencies – proposals that are easy to deliver or based on change that is already significantly progressed. These are listed in appendix 1 and are recommended for approval;
- Directorate efficiencies and transformation – projects and programmes to deliver efficiencies and redesign services that are specific to individual directorates, which do not require significant cross council integration, and;
- Collaborative savings – transformation projects that require more significant cross council working and possible integration of services, along with a review of cross-cutting council wide functions.

7.3. This report outlines the initial service efficiencies and are listed in appendix 1, totalling £5.6m. These initial savings are based on management decisions and are not related to service reductions.

7.4. The £5.6m of savings put forward so far represents under 10% of the Council's total forecast budget gap over the next three years. There is still a significant amount of work to be done to identify further proposals to help the Council meet the financial challenge ahead and this is well underway. Cross Council workshops have been run particularly focussed on collaborative service reforms and efficiencies, aligned to City for All priorities, which include themes such as:

- integration of some frontline services focussing on the customer perspective;
- joining up commissioning opportunities;
- a review of all operational property with a view to rationalising the overall asset base;
- investing in brokerage expertise for improved placements across Housing and Social Care services;

- review of consolidation opportunities to reduce cost via smarter contracting for common areas of spend across different services e.g. energy; supplies and services, etc.
- improved procurement outcomes through enhanced market engagement and insight;
- review customer journeys and pathways to services and examine preventative measures to reduce demand;
- assess transition to adulthood for young people;
- delivering savings through an improved digital offer aligned to the Customer Experience and Digital strategy, and;
- reviewing organisational design and structure with a focus on the costs of middle and senior management as well as a review of business support functions across the Council.

7.5. Work is underway to scope and develop these proposals and how much they could contribute financially to the medium term plan. Given the medium term nature of various service reforms proposed, some of the expected benefits are anticipated to be achievable over the medium to longer term. There remains a risk of a budget gap next year and beyond that needs to be solved.

8. Timelines

8.1. Timelines for the MTFP are outlined below:

Group	Date	Comments
Government comprehensive spending review outcome	November	Uncertain whether in the circumstances this will be for the planned three years or for just one
Local government finance settlement	Early December	No planned date has yet been announced
Scrutiny - Budget Task Group	W/C 18 th January 2020 (TBC)	Scrutiny of the MTFP, capital strategy 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

9. Legal Implications

- 9.1. This report is submitted to the Cabinet in accordance with the Finance procedure rules. Cabinet are asked to note the medium term financial forecast to 2023/24 and to agree the budget process approach as set out in the report.
- 9.2. 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.
- 9.3. 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.
- 9.4. 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.
- 9.5. 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.
- 9.6. 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.
- 9.7. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act.
- 9.8. 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

10. Consultation

- 10.1. No specific consultations resulting from this report. However, individual saving proposals could be required to go through a consultation process. If consultations are required on individual saving proposals this will be reported to Budget Task Group and Cabinet in January and February 2021.