Cabinet

Decision Maker:	Cabinet
Date:	13 February 2023
Classification:	General Release
Title:	Business and Financial Planning 2023/24 to 2026/27
Wards Affected:	All
Key Decision:	Key Decision
Financial Summary:	This report sets out the Council's medium-term plan for the next four years and proposes the budget for the 2023/24 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 four years to set out how it will support the Council's objectives under the new administration's Fairer Westminster strategy, supported by a medium-term financial plan. Cabinet is asked to consider the report and recommend its adoption to Full Council on 8 March 2023.

1.2. On 17 November 2022 the Government set out its Autumn Statement which detailed updated spending plans. The Chancellor also set out a new broad policy direction in three key areas: economic stability, economic growth and public services. On 12 December 2022 the Minister issued a Policy Statement for Local Government Finance, which set out the government's intentions for the local government finance settlement for the next 2 years, providing councils with greater certainty on key aspects of their funding to inform their budget setting process and help them their future planning. This was closely followed by the Local Government Finance Settlement on 19 December 2022. The settlement represents an increase in Core Spending Power for local government of 10.12% which includes Government assumption that authorities will take the maximum 5% council tax increase for 2023/24.

1.3. This report proposes a balanced budget for 2023/24, but still forecasts a gap of £56.8m over the following three years. Recognising the inflationary pressures and on-going cost of living crisis residents are experiencing it is proposed that for next year the budget includes a **freeze 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 £9.37 or an equivalent weekly amount of 18p per week. When combined, the general element of council tax and adult social care precept, for Westminster, will rise from £468.54 to £477.91 at Band D.

1.4. The recommended General Fund budget of £193.611m is a net increase of £8.75m against last year. In broad term this includes significant inflation pressures of £32.2m (including a base increase rolled forward from the current year), Fairer Westminster/Cost of Living policy investments of £7.8m, service cost and income pressures of £19.5m, additional resources for adult social care of £6.8m and other changes of £9.9m; offset by net increased government funding of £14.0m, savings proposals of £25.9m and additional interest earnings of £20.8m. The balance is funded from the increase in the social care precept of council tax of £1.2m and £6.6m from earmarked reserves.

2. Recommendations

2.1. That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 8 March 2023.

<u>Council Tax</u>

1. That the council tax for a Band D be agreed at £477.91 for 2023/24

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 2024, be as specified in the Council Tax Resolution in Appendix 6

3. That the Precepts and Special Expenses be as also specified in Appendix 6 for properties in Montpelier Square and the Queen's Park Community Council

4. That the formal resolution for 2023/34 attached at Appendix 6 including the council tax requirement of £64.974m be agreed

5. Note the proposed Greater London Authority precept (Band D) of £434.14, an increase of £38.55 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 8

8. That the proposed General Fund net budget requirement of £193.611m summarised in Appendix 4 is approved

9. That the savings, pressures and investments for 2023/24 to 2026/27 set out in Appendix 1, 2 and 3, 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 2023/24 and 30-Year Housing Investment Plan presented concurrently to Cabinet on 13 February 2023 that recommends the HRA budget and rent levels for 2023/24

Capital Programme

12. Note the Capital Strategy 2023/24 to 2027/28, forecast position for 2022/23 and future years' forecasts summarised up to 2036/37 report also presented to Cabinet on 13 February 2023 that recommends the Council's capital programme and financing

Reserves, Balances and Budget Estimates

13. Agree the reserves policy as set out in section 10

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 in section 10

Treasury Management and Investment Framework

15. Note the Treasury Management Strategy for 2023/24 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 2023/24 Integrated Investment Framework report also concurrently on this agenda, which sets out the policies and framework for future investment decisions for the Council

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 a Fairer Westminster

4.1. The Council launched its new Fairer Westminster strategy on 4 October to set out the outcomes it wants to deliver for the city, spread across five Fairer Westminster themes. These include:

- **Fairer Communities** – Inequality is reduced, everyone feels safe, adults can stay healthy, community and voluntary sector organisations prosper, and Westminster remains a great place for children to grow up.

- **Fairer Environment** – Westminster is a net zero council by 2030 and a net zero city by 2040, air quality meets World Health Organisation guidelines, our streets are clean, recycling is increased, people are enabled to travel more sustainably, and people have access to high-quality services within 15 minutes from their homes.

- **Fairer Housing** – The housing needs of people are met through greener and more genuinely affordable housing, homelessness is reduced, private rented sector properties are well managed, and our tenants and lessees are consistently satisfied with our housing services and the quality and energy efficiency of our housing stock.

- **Fairer Economy** – Westminster remains economically successful, Oxford Street and the West End are revived and retain their position in the national economy, small businesses are supported to grow and remain, and residents have the right skills to take advantage of the city’s employment opportunities

- **Fairer Council** – People can more easily find the information and services they need, the Council makes decisions more transparently, the Council is financially sustainable, and our procurement is responsible.

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.

4.3. Over the next 3 years, the Council will publish annual Delivery Plans that set out in more detail the priority actions that will be undertaken to achieve the Fairer Westminster strategy (in concert with the medium-term financial plan). This first Delivery Plan will cover 2023/24.

4.4. The Council’s processes to develop the budget and medium-term financial plans will ensure resources are applied in a way that most effectively and efficiently achieves the Council’s Fairer Westminster ambitions.

4.5. Some examples of how the Council has already delivered on its Fairer Westminster ambitions are set out below:

Fairer Environment

- Accelerated the roll-out of secure cycle parking hangers, with 154 now on street and 90 more planned by 2023
- Launch of the carbon impact evaluation toolkit (CIET) to help determine the carbon implications of council projects and activities
- Signed the Green Finance Institute's Local Climate Bond Pledge bringing the Council a step closer to meeting its net zero carbon commitments and launch the green bond.
- Agreed to install 500 more Electric Vehicle charging points in Westminster

Fairer Housing

- Increasing delivery of truly affordable homes of at least 160 new social rented homes in Westminster and outlining the way that major regeneration schemes can deliver a further 100 or more social homes
- Created a new role in the council to tackle empty homes in Westminster
- Purchased 17 homes with the assistance of the Right to Buy Back fund and will continue to work with the Mayor of London to access further funding to build and acquire more affordable housing

Fairer Economy

- Began developing new options for investment in the West End, including Oxford Street and Soho
- Successfully lobbied the government to protect important local high streets, such as Harrow Road, from indiscriminate conversion of retail shops to residential accommodation.
- Completed the transformation of Strand Aldwych into a welcoming public space

Fairer Council

- Launched the Future of Westminster Commission that will focus giving residents and communities a far greater say in Council decisions and service.
- Leading on the London-wide Census campaign to protect funding for the city

- Continued distribution of the Household Support Fund to support vulnerable residents

- Updated the Council's Responsible Procurement and Commissioning Strategy, providing a stronger focus on workers' rights, a more holistic and ambitious approach on climate action and more robust action on tackling modern slavery and exploitation

Fairer Communities

- Funding school lunches for all Key Stage 2 children who attend a Westminster primary school, for an initial period of 18 months at a cost of £2.7m to help families manage the cost-of-living crisis.

- In addition, investing over £10m to support residents through the cost-of-living crisis

- Issued £150 council tax rebate issued to 50,213 households, with 42,203 falling under the main scheme and 8,010 under the discretionary scheme.

5. Key areas of consideration

Macro-Economic Outlook

5.1. This year has seen significant economic instability within the UK and global markets driven by high rates of inflation created by the war in the Ukraine and the lingering challenges in the global supply chain post-pandemic and Brexit. The Office for Budgetary Responsibility (OBR) has noted that the medium-term fiscal outlook for the UK has materially worsened since they issued their forecast in March 2022 due to a weaker economy, higher interest rates and higher inflation.

5.2. The challenges above have seen economic recovery stall following the pandemic and a requirement for additional government support for people and some businesses as the cost of living is now having an impact. The OBR expects CPI inflation to have peaked at 11.1% in the final quarter of 2022/23 which is a 40 year high. Current forecasts show inflation is expected to drop sharply to an average of 5.5% in 2023/24 before returning to the 2% target in the following years.

5.3. Linked to rising inflation the Bank of England have also raised the interest rates to 3.5% in December the highest level for 14 years. The Bank of England is trying to restrict rising prices using monetary policy action. Interest rates are expected to increase further slightly and then fall in the medium term once inflation reduces.

5.4. Unemployment is set to rise by 505,000 from 3.5% to peak at 4.9% in the Q3 2024. Public sector net borrowing was £133bn (5.7% of GDP) in 2021 and is forecast to rise to £177bn (7.1% of GDP) in 2022. Thereafter it falls in each of the five-years 2023 to 2027 inclusive, ending the forecast period at £69.2bn (2.4%). Total UK debt is now £2.5 trillion and 99.5% of GDP.

Cost of Living Support

5.5. With inflation remaining at a 40-year high, 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
- 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

5.6. 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.

5.7. In response a total package of £9m of support has been made available to date with an extra £1m proposed for 2023/24 giving a total of £10m. This support is funded from a variety of sources; both from Government and the Council.

Autumn Statement – 17 November 2022

5.8. On 17 November the Chancellor announced the Autumn Statement 2022, which outlines the government's spending plans for 2023/24 to 2027/28 The key announcements effectively reversed many of the announcements made at the September "mini-budget".

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

- Local Authorities were given the option to raise core council tax by up to 3% without a referendum. This is a 1% increase on the former 2% referendum limit. Additionally, there is the ability to increase the Adult Social Care (ASC) precept element of council tax by 2% (1% previously). For context, a 1% council tax increase in Westminster raises c£0.630m per annum;
- Implementation of the planned social care reform has been delayed until October 2025. Planned funding of the reforms has been retained and ring-fenced for social care to pay for demand pressures. In conjunction with this announcement, government also made available an additional £2.8bn Adult Social Care funding, within which government assumed that authorities would take the full 2% ASC precept;

- An extra £1bn will be allocated to local authorities for social care via the Better Care Fund (£600m) and through a ringfenced ASC grant (£400m) in 2023-24, rising to £1.7bn in 2024/25;

- The business rates multiplier will be frozen in 2023/24 and local authorities will be fully compensated for any loss of income through a Section 31 grant;

- Social housing rents are to be capped at 7%. The current policy of CPI+1% was set at a time when inflation was around 2%. However, CPI for September 2022 was 10.1%, which under the current rules would permit social housing rent increases of 11.1%. The government have directed that the maximum increase be 7% rather than 11.1% for 2023/24. There is no compensation from the government for lost income to the Housing Revenue Account (HRA) which represents an opportunity cost of around £3.2m per annum from 2023/24 for Westminster;

- The school's budget (Dedicated Schools Grant) will increase by £2.3bn in each of next 2 years above the Spending Review (SR21) level;

- Support for energy costs extended to April 2024 but scaled down. Average cost capped at £3,000 from £2,500 (2023/24);

- Targeted support for the Cost of Living for low income, pensioner and those on disability benefits and full changes to Universal Credit delayed to 2028;

- Business rate revaluation in April 2023 has been softened by a transitional scheme that cushions the increases of rate rises and allows the full reduction to be passed to those with lower bills;

Provisional Local Government Finance Settlement 2023/24

5.10. After the Policy Statement issued by the Minister on 12 December 2022, the provisional 2023/24 Local Government Finance Settlement was published the following week on 19 December 2022, 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 outlines provisional funding allocations for local authorities for 2023/24 and together with the policy statement gave an outline of expected funding through to 24/25.

5.11. Council funding comprises two main elements, government funding and local taxation through Council Tax and Business Rates.

Government Funding

Core Spending Power (CSP)

5.12. 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 34% in Westminster)

5.13. The Department of Levelling Up, Housing and Communities (DLUHC) measure for 2023/24 is that CSP will increase in cash terms by 9.2% across England. Westminster's equivalent indicative CSP as calculated by government is a 10.1% increase on 2022/23. However, Westminster's actual CSP increase will be lower at 8.1% 2022/23 because of several factors:

- the government assumes the full 5% council tax rise will be taken; this report proposes that it will only rise by 2% for the adult social care precept;

- the council tax base growth at 0.7% in Westminster is less than the national average assumption used;

- CSP is calculated using National Band D averages and Westminster is significantly below that national average, and;

- the Council's business rates position for 2023/24 remains at safety net position. Any compensation for under-indexing the business rates multiplier will mitigate safety net losses rather than constitute additional budget.

5.14. A summary of the Council's funding settlement in comparison to 2022/23 is provided below:

	CSP 2023/24 £m	CSP 2022/23 £m	Change £m	Change %
Settlement Funding Assessment (SFA)	128.6	121.6	(7.0)	5.8
Improved Better Care Fund	17.6	17.6	0.0	0.0
Social Care Grant	26.5	17.2	(9.3)	54.1
Lower Tier Service Grant	0	1.7	1.7	-100.0
Service Grant	3.5	6.2	2.7	-43.5
New Homes Bonus	0.2	2.3	2.1	-91.3
Market Sustainability and Fair Cost of Care Fund	3.1	0	(3.1)	100.0
Market Sustainability and Improvement Fund	0	0.9	0.9	-100
Discharge Fund	2.5	0	(2.5)	100.0
Consolidated Grants	0	0.8	0.8	-100.0
Sub-Total	182.0	168.3	**(13.7)**	8.1%
Council Tax max rise govt assumption 5%	67.3	63.3	(4.0)	6.3
Compensation for Business Rates Relief	16	9.2	(6.8)	73.9
Total Core Spending Power 265.3 240.8 (24.5)				**10.1%**
Total Core Spending Power	**265.3**	**240.8**	**(24.5)**	**10.1%**

Settlement Funding Assessment (SFA) - £7.0m increase for Westminster

5.15. 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 £789m from £14.9bn to £15.7bn. The Council's SFA has increased from £121.6m to £128.6m, representing an increase of 5.8%. This is slightly higher than the national increase of 5.3%.

Improved Better Care Fund (iBCF) – nil increase for Westminster

5.16. Improved Better Care Fund (iBCF) will continue at the same level as in 2022-23 (£2.1bn), with London Boroughs receiving £346m (16.3%). 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

5.17. The government announced increased in social care funding in the Autumn Statement which included a maximum increase of 2% 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 – increased from £17.2m to £26.5m an increase of 53%

- Market Sustainability and Improvement Fund – this includes recycled funding from the money previously announced for ASC reforms.

- Improved Better Care Fund – this has remained cash flat in 2022/23 and remains at £17.6m

- Discharge Grant – a new grant for which Westminster have received £2.474m.

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

Lower Tier Service Grant – £1.694m decrease for Westminster

5.18. The un-ringfenced Lower Tier Services Grant (introduced in 2020/2021) has been scrapped from 2023/24 onwards. This is a reduction of £1.694m to the Council. The government plan to use this grant fund the minimum 3% guaranteed funding to local authorities to ensure that no authority has a cash terms cut in CSP in 2023/24. No London Borough will receive the funding guarantee in 2023/24.

Services Grant - £2.72m decrease for Westminster

5.19. Whilst originally intended to be a one-off grant this will continue in 2023/24 whilst the methodology used is the same as previous years the government has confirmed that the funding will be reduced the funding award allocated to authorities to support the increase in National Insurance contributions now that decision has been reversed. A further amount has also been top sliced to pay for additional supporting families funding. For Westminster this results in a £2.72m reduction and the grant will continue to be paid in 2024/25.

New Homes Bonus (NHB) - £2.095m decrease for Westminster

5.20. The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. As part of the national allocation of NHB the Council will receive £0.155m in 2023/24 which is a reduction from 2022/23 of £2.095m. Government has made clear its intention that NHB would be phased out since 2021/22. The Council has therefore budgeted for the fall in NHB with a tapering to zero from 2024/25.

Local Taxation

Council Tax

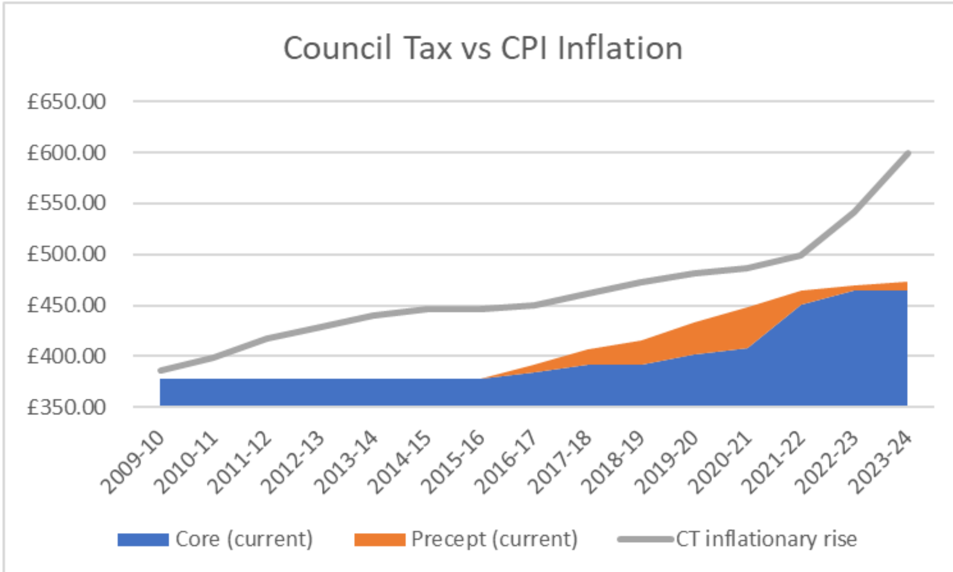
5.21. Westminster City Council's council tax charge, in 2022/23, is the lowest in the country at £468.54 per annum for a Band D property. Any increases to council tax are capped at the following levels (as announced in the Autumn Statement 2022):

- Up to 2.99% maximum "core" increase, the general element of council tax for all services, an increase of 1% on the previous limit

- 2.00% adult social care precept, an increase of 1% on the previous limit.

5.22. 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.

5.23. Given that December CPI inflation stands at 11.1%, any council tax increases up to the referendum cap would remain well below inflation. The graph below highlights the Band D council tax charge since 2009/10 (including the ASC Precept) compared with the cumulative CPI levels. It shows that council tax has remained consistently below inflation for over 10 years. The grey line in the graph below shows that council tax would be approximately £600 per annum had it increased in line with inflation:



5.24. For every 1% increase to Band D council tax, the Council generates approximately £0.630m funding. For 2023/24, the Council **proposes a freeze on the core element of council tax** with a 2% increase on the Adult Social Care Precept. A 2% increase on a Band D property equates to a £9.37 per annum increase or 18p per week.

5.25. Additionally, the Council has retained council tax support scheme at 100% funded for working age residents. Further details of this scheme are set out in Section 11 of this report.

Other Funding

Household Support Fund (HSF)

5.26. 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 twice to run until 31 March 2023, first from 1 April to 30 September 2022, and then again from 1 October to 31 March 2023. The total HSF allocated to Westminster during 2022/23 was £3.9m, all of which must be spent by March 2023.

5.27. It was announced in the Autumn Statement that HSF would continue for a further year to 31 March 2024. Local allocations are yet to be announced but Westminster's forecast allocation remains at £3.9m.

5.28. Further announcement of £100m for Council Tax Support Fund for 2023/24 of which Westminster will receive just over £400k to support local residents. Details on how the Council has supported its residents during the cost-of-living crisis is outlined in paragraph 5.5.

Dedicated Schools Grant (DSG)

5.29. The table below shows the 2023/24 DSG and mainstream schools additional grant funding allocations for Westminster. The provisional 2023/24 allocation (before the deductions for payments to academies) has increased by £6.498m (3.6%) from 2022/23 to £185.017m.

Block	2023/24 £m	2022/23 £m	Change £m	Change %
Schools (including supplementary grant added to 2022/23 baseline) *	125.352	127.223	-1.871	-1.47%
Mainstream schools additional grant (MSAG)	4.423	0.000	4.423	
Sub total Mainstream Schools	***129.775***	***127.223***	***2.552***	***2.01%***
High Needs including additional DSG funding**	41.587	37.658	3.929	10.43%
Central School Services	0.954	0.997	-0.043	-4.31%
Early Years incl teacher pay grants***	12.701	12.641	0.060	0.47%
Total	**185.017**	**178.519**	**6.498**	**3.64%**

*Allocation before deduction for academies and include the School Supplementary Grant in 2022/23, which is included in the Schools Block from 2023/24.
**Allocation before deduction for academies high needs places. The provisional High Needs allocation will be updated by March 2023.
***Early Years allocation is provisional currently for both years.

5.30. The schools block allocation is mainly driven by pupil numbers which have reduced by 620 (149 were Afghan evacuees temporarily on roll) to 17,257 and the block has increased by 2% per pupil. After specific funding agreed to support schools with falling rolls the total budget delegated to schools is showing an average 2.5% per pupil increase. Once the Mainstream Schools Additional Grant is taken account of the increase is 6.1% per pupil. Every school has an increase of at least 3.6% per pupil compared to 2022/23 funding.

5.31. Funding increases will cover the full year impact of the 2022/23 pay awards for teachers and non-teaching staff. However, the pay awards in 2023/24 and inflationary increases (e.g. energy) will not be covered if they are above 5%. Schools with falling rolls continue to be in a challenging budget position and are being supported.

5.32. The high needs block includes additional funding of £1.669m in 2023/24, this extra resource will be allocated to special schools and Alternative Provision (AP) Academies to help manage their cost pressures. The significant increase of 10.4% recognises the continuing high demand for SEND that has arisen since the Children and Families Act was implemented in 2015.

5.33. The net increase in early years block funding the corresponds to the increase in 2 and 3-4 year old funding rates, partly offset by a reduction in the maintained nursery school (MNS) supplement rate of approximately 12% (including TPPG). The funding for 2022/23 and 2023/24 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 £6.80 to £7.00 (+3%) per hour for providers. The hourly funding rates for eligible 2 year olds has increased from £6.87 to £7.56 (+10%). Children's Services retains a 5% element of early years funding to support the coordination of central services, and the impact of any reductions on these budgets is expected to be small. This will be further quantified along with details of the final settlement once figures are confirmed in July 2023.

5.34. In addition to the DSG, mainstream schools will be allocated additional funding through the mainstream school's additional grant (MSAG) in 2023/24. Schools will have the flexibility to prioritise their spending of the MSAG to best support the needs of their pupils and staff and address cost pressures. The Indicative allocation of the MSAG for Westminster is £4.423m. Final allocations for the MSAG will be confirmed in spring 2023.

Homelessness Prevention Grant (HPG)

5.35. The government announced £6.8m funding for the Homelessness Prevention Grant in 2022/23. This was the same as the previous year. However, in December 2022, Westminster received confirmation of a £1.1m top-up payment to relieve some of the winter pressures being faced. Westminster have received an allocation of £6.9m of HPG in 2023/24, rising to £7.0m in 24/25.

Public Health Grant

5.36. An announcement on the Council's Public Health grant for 2023/24 is expected in March 2023.

6. Budget Gap

6.1. The estimated four year budget gap as reported to Cabinet in July 2022 was £61m from 2023/24 to 2026/27. The 2023/24 gap was reported as £10.9m.

6.2. Work has continued through this financial year to prepare savings proposals, manage the various cost pressures including the unprecedent 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 19 December 2022. This report proposes a balanced budget for 2023/24 and shows a remaining forecast gap of £56.8m over the following three years. The overall changes in the budget are summarised below:

Changes Since July 2022	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m
Budget Gap - July 2022	10.886	15.881	17.27	17.262	61.299
Service Specific Items:					
New Savings	(15.253)	(5.995)	(3.635)	(3.615)	(28.498)
New Pressures	19.597	1.185	0.000	0.000	20.782
Fairer Westminster Investments	6.799	1.393	0.100	(0.235)	8.057
Cost of Living	1.000	(1.000)	0.000	0.000	0.000
Changes to Existing Savings	(1.147)	0.000	0.000	0.000	(1.147)
Subtotal	**10.996**	**(4.417)**	**(3.535)**	**(3.850)**	**(0.806)**
Funding:					
Changes since the provisional LG settlement - December 2021	(16.315)	(12.093)	3.685	0.179	(24.544)
Corporate Changes:					
Interest Earnings	(20.821)	6.000	5.000	4.000	(5.821)
Inflation	17.726	1.571	2.444	2.449	24.190
Business Rates Safety Net	6.800	(6.800)	0.000	0.000	0.000
Other	4.077	(0.664)	1.098	(2.000)	2.511
Subtotal	**7.782**	**0.107**	**8.542**	**4.449**	**20.880**
Budget Gap Before Use of reserves	**13.349**	**(0.522)**	**25.962**	**18.040**	**56.829**
Use of Reserves	(6.549)	5.156	1.293	0.100	(0.000)
Business Rates Reserve	(6.800)	6.800	0.000	0.000	0.000
Budget Gap	**(0.000)**	**11.434**	**27.255**	**18.140**	**56.829**

6.3. New **savings** of £28.498m are proposed over the planning period to 2026/27. Each proposal is listed in Appendix 1. Most of the new savings proposals fall in 2023/24 and further savings will require identification as the medium term planning period progresses.

6.4. 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

6.5. Some income levels have shown improvement following the Covid-19 pandemic. Where this is the case, a prudent increase is proposed for next year. Fees and charges have also been reviewed in the context of maintaining cost recovery on the delivery of those services. Some examples on where income will support the 2023/24 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 2022)

6.6. The new administration, in setting out its Fairer Westminster vision has identified its initial **investment** priorities. For the general fund revenue budget (Capital and HRA shown in concurrent reports) these total £8m over four years, details of those investments can be seen at Appendix 2. The key areas are outlined below:

- <u>Universal Free Primary School Meals</u> - To fund free school meals for all primary pupils during term time (infant FSMs are already funded by government grant)
- <u>School Uniform Support Grant</u> - Continue funding the recently established School Uniform Support Grant Scheme
- <u>Improving Mental Health (Adult Social Care)</u> - This scheme will provide a unique environment for people to learn new skills or enhance their existing talents in a range of life skill activities set up in a supportive and engaging environment.

- Youth Sector Investment – a range of youth sector support, including support for activities during half-term holidays, additional support for Youth Hubs and Youth Council

- Climate Action Team investment – embedding specialist climate action capability to ensure that that the Council can meet its target to reach net zero council by 2030 and for the whole city to be net zero by 2040.

- Responsible Procurement Strategy – investment to increase the number of local, Small and Medium-sized Enterprise (SME) and minority led businesses and organisations in the Council's supply chain, allowing Westminster to retain a higher proportion of the Council's spend within the City

- Tech Lions apprenticeship investment - As part of the Council's commitment to support residents in employment opportunities and develop fulfilling careers the Council is aims to recruit a cohort of 20 apprentices aged 16–24 as part of its Tech Lions 2.0 apprenticeship campaign. With a focus on maximising resident appointment, this initiative will bring in young talent into the organisation and help them develop as future digital leaders

6.7. New **service pressures** total £19.5m over the next four years. Service pressures arise from a combination of increased demand, reduced income levels in certain commercial income streams and changes in Council priorities. Pressures are set out in full in Appendix 2. The key pressures are:

- Temporary Accommodation (TA) – the number of households housed in TA has been well managed by Westminster in recent years, with numbers remaining relatively static (c2,750 households) despite demand pressures. However, 2022/23 has seen a significant cost pressure materialise. It is recognised that market pressures are having a significant impact in London, and most acutely in inner London. Independent market research concluded that private sector rents increased by over 21% in Westminster, the second largest growth across the capital. This market pressure has seen the cost of leased TA rise significantly in 2022/23. 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. Compounding this cost pressure, further anticipated demand pressure driven by other factors such as the cost-of-living crisis and assistance for Ukrainian refugees.

- Adult Social Care – increased demand for client and care packages in respect of learning difficulties, acute needs, and mental health

- Short Breaks – increased demand for Westminster's short break service. Short breaks enable disabled children, young people and adults to have time away from their carers, explore new opportunities, have fun and broaden their social networks whilst promoting independence.

- SEND transport – increase in numbers of children with support plans and therefore increased need for home to school transport

- Parking - demand for on street parking and permits in Westminster has shown a slow decline for several years, and while now largely recovered from pandemic effects that underlying trend has continued with demand for on-street parking currently 2.5% below 2019/20 levels. This reflects trends reported by Department for Transport which show fewer vehicle journeys in Westminster and is linked to an uptake in active travel, home working and online shopping.

- Public Protection and Licensing - Tables & Chairs licencing legislative changes introduced under the Business and Planning Act 2020 created a new Pavement licensing regime during the pandemic. The Pavement licences are capped at £100 and do not require premises to apply for planning permission. Licences under the act continue to be available until September 2023. The new Levelling and Regeneration bill if passed into law will result in lower fees than were previously set by Westminster, under the City of Westminster Act 1999.

- Planning Income – Activity in this area has reduced significantly since the pandemic. Applications, particularly in the higher fee earning major applications, have reduced by as much as 67% since before the pandemic.

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

- Inflation: a further £24m of pressures for inflation has been included. This includes inflation costs above budget carried over from the current year of £11m. This is in recognition of the higher rate of CPI (10.7% in November 2022), increases in utility prices and pay inflation. The Council will continue to review different indices and negotiate appropriate inflationary increases in contracts rather than just apply the general inflation index. Provision for next year's pay award has been made at 5%. Over the medium term it is assumed that inflation will remain high during 2023/24 before reducing to below 2%.

- Interest Earnings: interest rates have steadily increased over the course of 2022/23, starting from 0.75% in April 2022 and rising to its current position of 3.5%. This means that the Council's investment earnings are set to increase in the short-term, increasing income by a further c£20m on average cash balances of £1bn in 2023/24. This additional income is expected to reduce from 2024/25 as cash balances reduce from expenditure related to the capital programme and interest rates fall.

- Business Rates Safety Net: the Council forecasts that its business rates collection position in 2023/24 will be at safety net as a result of reduced collection following the Covid-19 pandemic. The maximum loss that the Council can incur in 7.5% of the baseline position which is £6.8m in 2023/24.

The government underwrite any losses beyond that so is not a financial risk for the authority. This £6.8m loss will be mitigated by one-off use of Business Rates risk reserve to balance the 2023/24. Business rates collection is expected to return to baseline in 2024/25.

7. 2022/23 Forecast Outturn Position

7.1. The budget monitoring position at the end of September 2022 is forecasting an overspend of £5.8m against the approved net budget. This is largely the impact of increased inflationary pressures affect council services, contract negotiations and pay awards. There are further pressures from Temporary Accommodation and continuing income challenges from Planning and Parking.

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

7.3. 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.

8. Pension Fund

8.1. 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.

8.2. The triennial valuation of the Westminster Pension Fund was completed by the Council’s actuary as at 31 March 2019. The latest actuarial report values the future liabilities of the Pension Fund and sets the employer’s contribution rate for the three years from 2020/21 to 2022/23.

8.3. The actuary reported that the employer’s contribution rate for the Council was required to rise from 15.7% to 16.8% with effect from 1 April 2020 to fully fund the cost of active members

8.4. As well as needing to make contributions into the Pension Fund for active members, the Council is required to make contributions to address an historic funding deficit. The Council paid off its deficit during 2022, with a final payment of £80m. This was based on the Council using cash balances and amortising the remaining balance. The approach taken was agreed with the external auditors and supported by external legal advice.

8.5. The triennial valuation covering the period from 2023/24 to 2025/26 took place as at 31 March 2022. Provisionally, the whole Fund’s funding level has risen 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.

8.6. The draft funding level for Westminster City Council (as a single employer) stands at 111%, improving from 86% previously. Specifically, the effect of strong asset returns, and the significant secondary contributions have helped to improve the funding position. The Council's primary contribution rate is yet to be agreed for 2023/24: however, it is expected to remain broadly in line with the current rate of 16.8%.

Pension Fund Governance

8.7. 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 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.

8.8. 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.

8.9. As at 30 September 2022, the London CIV had £23.8bn of assets under management of which £13.3bn are directly managed by the London CIV. The Council is one of the biggest London Borough supporters of the London CIV LGPS pool, with over £1.215bn of pension fund investments procured through this vehicle, including £377m invested passively in the Legal & General (LGIM) passive equities future world fund. During 2019, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Quality Fund and LGIM Future World Fund.

8.10. The Fund committed 6% (circa £110m) to renewable infrastructure during 2021, with Macquarie and Quinbrook each selected to manage a 3% allocation. As at 31 October 2022, the Fund had approximately £60.2m of capital drawn down, with assets targeted to solar power, onshore and offshore wind, alongside supporting infrastructure such as battery storage and connection assets. It is estimated that once fully drawn these assets will offset 46,000 tCO_2 per annum for Westminster's allocation, and power up to c.12,000 homes annually.

8.11. During 2022, the Pension Fund made commitments to both affordable housing and socially supported housing totalling 5% of the Fund. The allocation has a long-term goal of providing 13,000 new homes that cost no more than 35% of a household's gross income and across sectors, including children's services housing, specialised supported housing and older person supported housing within the supported living market.

8.12. In late 2022, the Pension Fund Committee elected to transition the holdings within the London CIV (Baillie Gifford) Global Alpha Equity portfolio into the Paris Aligned version. The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative method to screen out companies that will not play a role in the future transition to a low carbon environment.

8.13. A 2023 Responsible Investment Strategy has been produced which illustrates the progress made in this area, this will be taken to the next Pension Fund Committee.

9. Other Budget Reports

9.1. 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

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

9.3. 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

9.4. The HRA 30 year business plan is set out separately on this agenda. The rent increase proposed is at the maximum cap of 7%, which is below current inflation. Additional funding is being set aside to provide support to tenants in difficulty with the rent with amount being doubled to around £1m for next year.

9.5. There are some Fairer Westminster policy revenue investments proposed as well as a balanced capital programme that delivers additional social rented homes, provides for carbon retrofitting and maintenance of the existing stock to a decent standard.

Treasury Management Strategy

9.6. 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.

9.7. As anticipated in the 2022/23 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).

9.8. 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. £187m of this has been drawn down to date. 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. Whilst borrowing rates are expected to be 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.

9.9. The current 2022/23 annual investment strategy was set in an environment of low interest rates, with expectations of only modest interest rate rises. However, in response to stronger than expected CPI inflation throughout the year the Bank of England has increased interest rates throughout the year at greater than expected amounts. Additionally, gilt yields increased sharply off the back of the Sep/Oct 2022 fiscal event and various other concerns held by the market and, although now more stable, are higher than the same time the previous year. This led to a rise in investment yields and, as a result, significantly higher forecast treasury returns. This is expected to continue into next year and then start to reduce as the Bank of England reduce the base rate as inflation comes under control.

9.10. 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. Investment returns are expected to increase further in 2023/24. Housing Investment Plan & Housing Revenue Account (HRA) Business Plan

10. Financial Resilience – Risks and Reserves

10.1. The UK's macro-economic outlook remains uncertain over the medium-term with several risks and uncertainties over future government funding levels, the fiscal outlook and the timeframe of the cost-of-living crisis. The Council retains a level of reserves to mitigate those risks while also maintaining reserves to invest in its priorities.

Risks and Uncertainties

10.2. Identifying and managing risks is a key element in delivering business and financial plans. This is done through the risk management strategy, the corporate risk register and directorate risk registers. Risks are reviewed quarterly as part of the Council's financial and performance report by Audit and Performance Committee.

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

- Future of government funding – The current Spending Review (SR21) lasts until March 2024, upon which the government will reset its departmental spending position. How the Department of Levelling Up, Housing and Communities will fare in the next spending review will determine the funding distribution for each authority. There are indications that Westminster's funding levels will reduce from 2024 as 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 2023/24 budget and beyond with November CPI at 10.7%. The OBR predict this to fall, but there is still significant uncertainty given continuing global events. Energy and fuel costs have risen by 150% during the recent period. Staff pay, which is negotiated nationally has increase by 5% in the current year, 3% above original expectations and a further 5% is assumed in 2023/24. Unions have lodged a pay claim that is considerably above this.

- Interest rates – interest rates have been increased significantly 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 in 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 etc. 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 Strategy

10.4. 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.

10.5. 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.

10.6. 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.

10.7. 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.

General Reserves

10.8. 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 2022 was £57.4m. 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.

Legislation, Role and Responsibility

10.9. When considering what level of general reserve to hold, the following relevant and applicable legislation and regulation has been considered:

- *Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992* require billing authorities (i.e., the Council) to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Specifically, sections 31A and 42A require local authorities to set a balance budget including an adequate level of reserves;
- *Section 25 of the Local Government Act 2003* requires the Chief Financial Officer or for WCC, the Section 151 officer to report on the adequacy (or otherwise) of reserves and the robustness of estimates supporting the budget;
- *Section 26 of the Local Government Act 2003* requires that when setting the budget requirement, the reserves include a minimum level for controlled reserves – this minimum level is determined by the Section 151 officer, and;
- *Section 27 of the local Government Act* 2003 requires the Section 151 officer to report on the inadequacy of controlled reserves – i.e., when it appears to the Section 151 officer that the level of a controlled reserve is inadequate or likely to become inadequate.

10.10. In summary, primary legislation requires the Council to:

- empower the Section 151 officer to report on the adequacy of reserves and determine an appropriate minimum level, and;
- set a balanced budget with due regard to the level of reserves held.

10.11. The Council's Section 151 officer is charged with determining the overall level of general reserves. This position is reviewed annually and is a key part of the formal budget setting process. This is set out in the Council's Financial Regulations

Financial Resilience

10.12. Financial resilience is a critical part of a well-functioning authority. It is the ability to respond to changes in delivery or demand without placing the authority at risk of financial failure. Financial resilience provides assurance over the continuity of essential services to residents and businesses and allows authorities to invest in its corporate priorities.

10.13. The ability to demonstrate financial resilience comes in many forms:

- A robust medium-term financial plan
- Integrated strategies and plans
- Effective performance and monitoring
- Effective ownership and accountability

10.14. To support an objective view of financial resilience, the Chartered Institute of Public Finance and Accountancy (CIPFA) publishes an annual resilience index. Westminster City Council has been deemed sufficiently protected from major shocks through its reserves provision, its outstanding Children's Services, and its unqualified external audit opinion.

General Reserves Level

10.15. As part of S25 of the Local Government Act 2003 the S151 officer is required to report on the adequacy of reserves.

10.16. As at March 2019, before the pandemic, the General Fund reserves balance was £62.8m. As at the end of the last financial year the Council held a general reserves balance of £57.4m. This is expected to fall to £51.6m by the end of this current financial year because of the forecast revenue overspend. This represented approximately 10% of the Council's gross controllable expenditure.

10.17. Based on the information contained within the paragraphs above the Section 151 officer's judgement is that general reserves are considered adequate as at the date of this report.

10.18. This is based on the following considerations:

- it allows the Council to mitigate any macro-factors which cannot necessarily be forecasted or influenced but will impact the Council, e.g., inflation levels.

- the wider economy is forecast to stabilise and grow although significant uncertainties remain;

- the Council's framework of governance and controls has been assessed by the Auditor as being satisfactory.

10.19. There are several other factors which suggest that it would be desirable to increase the level of the balance at the earliest opportunity as set out above. It is forecast that the general fund reserves balance will fall to approximately £51.5m at the end of this financial year, which represents 10% of gross controllable expenditure. This is considered by the s151 officer to be a prudent level of general reserves for the Council to hold and is recommended policy for the Council within an 8-10% range.

10.20. It is not considered at this point that budget reductions should be made to accommodate an increase in reserves. However, any available resources which become available from the following sources should be added to the general reserve where possible:

- in year revenue underspends as reported through the monthly revenue monitor to Cabinet;

- one off revenue funds which become available e.g., one-off unbudgeted income;

- any other available resources which become available on an unforeseen or unbudgeted basis.

10.21. Earmarked reserves for service investment are being utilised this year to fund important policy objectives in the current cost of living crisis. This use is largely one-off for 23/24 and the ongoing base cost is factored into the budget plans going forward.

10.22. 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.

Zero Based Budgeting

10.23. The Council intends to commence a zero based budget review starting in the 2023/24 financial year and informing future budgets. The aim of the review is, subject to considering the Council's legal obligations and policy priorities, to examine and review council spending based on the outcomes it delivers for residents and communities. It is hoped that the review will identify areas for savings and lead to greater value for money in the future.

11. Council Tax, Business Rates, Levies and Precepts

Council Tax

11.1. The council tax base (the number of Band D equivalent properties estimated to be billable for the year 2023/24) was considered by Cabinet in December 2022 and approved by Full Council on 25 January 2023. 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 135,056 to 135,955, 0.67% raising an additional income of £0.418m due to increase in council tax base only. This is lower than the 1% increase forecast.

11.2. 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.

11.3. The table below summarises the Council Tax Base position for Westminster in 2023/24. 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
2022/23	3,519.72	91.68	131,444.92	135,056.32
Change	118.11	-	781.03	899.14
2023/24	3,637.83	91.68	132,225.95	135,955.46

11.4. 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£0.621m of council tax income.

11.5. 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 2023/24 and would be subject to a referendum.

11.6. 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	0%	1%	1.50%	2.00%	2.50%	2.99%
Band D 2022/23 (£)	468.54	468.54	468.54	468.54	468.54	468.54
Increase	0.00	4.69	7.03	9.37	11.71	14.01
Modelled Band D 2023/24 £	**468.54**	**473.23**	**475.57**	**477.91**	**480.25**	**482.55**
Additional Income (£m)	**-**	**0.637**	**0.956**	**1.274**	**1.593**	**1.905**

11.7. The schedules accompanying this report set out the financial implications on the Council's overall budget of **freezing the general council tax** amount for 2023/24 at the same amount set for 2022/23 Band D council tax. Cabinet is asked to recommend no increase in general element of 2022/23 Band D council tax to Full Council.

11.8. The London Assembly is due to meet to consider the Mayor's proposed budget for the GLA for final approval on Thursday 23 February 2023. Currently, the Mayor's proposed budget recommends an increase to the 2023/24 Band D equivalent charge from £395.59 to £434.14, an increase of £38.55 rise in the adjusted Band D Precept (9.7%). The proposed precept for council taxpayers in the City of London is £142.01 (an increase of £23.55 which excludes the £15 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.

11.9. Queen's Park Community Council notified the Council that their precept for 2023/24 would not change and stay at £47.31 (Band D equivalent).

11.10. The Montpelier Square Garden Committee has notified the Council that their special expense for 2023/24 will be £680.63 (Band D equivalent).

11.11. Local authorities have been granted additional powers from the Department for Government and Local Communities (MHCLG) 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.

11.12. 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.

11.13. The collective impact of the proposed changes discussed above to the Westminster Band D amount from an increase of 2.00% for Social Care for 2023/24 is additional income of £1.274m as set out below:

Approved Band D 2022/23	**468.54**
2.00% Increase	9.37
Approved Band D 2023/24	**477.91**
Council Tax Base 2023/24	**135,955**
Increased rate (£)	9.37
Additional Income (£)	**1,274,007**

11.14. 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
WCC: General Element @0% Increase (£)	468.54	468.54	468.54
WCC: ASC Precept @2.00% Increase (£)	9.37	9.37	9.37
Sub-Total	**477.91**	**477.91**	**477.91**
Greater London Authority Precept (£)	434.14	434.14	434.14
Queen's Park Community Council (£)	47.31	0.00	0.00
Montpelier Square Special Expense (£)	0.00	680.63	0.00
Total Band D Amount (£)	**959.36**	**1,592.68**	**912.05**

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
2023/24 Council Tax Base (No. of Band D Equivalents)	**3,637.83**	**91.68**	**132,225.95**	**135,955.46**
Westminster City Council (£)	1,738,555	43,815	63,192,104	64,974,474
Greater London Authority Precept (£)	1,579,328	39,802	57,404,574	59,023,703
Queen's Park Community Council (£)	172,106	0	0	172,106
Montpelier Square Special Expense (£)	0	62,400	0	62,400
Total Band D Amount (£)	**3,489,989**	**146,017**	**120,596,678**	**124,232,683**

Council Tax Reduction Scheme

11.15. 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.

11.16. 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.

11.17. 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.

11.18. The Council recently approved the retention of the "100%" Council Tax Reduction scheme for the 2023/24 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 2023/24.

The Collection Fund

11.19. 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 2023/24 the above estimates will represent the amount of income credited to the revenue account for that year regardless of the actual achieved.

11.20. The Council has reported a surplus in its business rates account since 2016/17. However, following the pandemic, the Council reported a deficit in 2020/21 and is currently forecasting a deficit in 2022/23. This will result in a net loss in income of £6.8m in each year (maximum permitted under current rules). The Council is also forecasting a deficit in 2023/24 and the council will again incur a net loss of £6.8m in business rates income loss which will all be covered from reserves for each of the relevant years.

11.21. 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 and 2021/22. In 2022/23 the council is now reporting a surplus and this is again predicted in 2023/24.

Business Rates

11.22. The government confirmed that the Expanded Retail Discount for businesses would continue to apply in 2022/23 at 75% up to a maximum of £110,000 per business. The Council has to date provided £108m in relief. The Council is expected to collect £1.9bn of business rates in 2022/23.

11.23. 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.

11.24. In 2023/24 there has been a national revaluation of business rate rateable values. On average the value of Westminster's business rates values has decreased by 3.15%, this is mitigated by changes to the central government tariff adjustment.

Business Rates: The Collection Fund and Pooling

11.25. 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 based on WCC 30%, GLA 20% and central government 50%. In 2022/23 a smaller group of boroughs agreed to pool and this is likely to continue in 2023/24, but it is not beneficial for the pool for Westminster to be included because of the deficit the Council has.

11.26. Based on latest estimates it is forecast that the Council will go into the business rates safety net for 2022/23 and 2023/24, in the same way it did in 2021/22. 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 £6.8m per year. This can be covered by the business rates equalisation reserve set aside in previous years of growth. This will therefore not impact on the general fund revenue budget.

Levies and Special Charges

11.27. 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

11.28. At the time of writing this report, the Council is awaiting notifications from these three bodies to confirm the 2023/24 levies. Therefore, the 2022/23 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.

12. Stakeholder Engagement

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

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

13. Financial Implications

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

14. Legal Implications

14.1. 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.

14.2. 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.

14.3. 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.

14.4. 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.

14.5. 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.

14.6. 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.

14.7. 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.

14.8. 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.

14.9. 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.

14.10. Under powers contained in the Localism Act 2011, the Government can require compulsory referenda on Council Tax increases above limits it sets. For 2023/24, the referendum threshold is 2.99%. The proposal is within the threshold change: the Council will therefore not be required to hold a referendum.

14.11. 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 2023/24 and is therefore proposing to implement the precept.

15. Carbon Implications

15.1. The Council has a clear commitment to be a carbon neutral organisation by 2030 and as a City by 2040 and be carbon zero by 2050. The Climate Emergency Programme has an allocated £5m reserve to support meeting the targets and additional resources are proposed in this report to mainstream the work. Alongside this, the team are continuing to work with other council departments to ascertain what the true cost will be to implement all the actions in the Climate Emergency Action Plan (CEAP). It is already known that a significant amount of external funding will be required to deliver the CEAP commitments, hence the efforts being made to look for potential funding sources available.

15.2. The Council spends over £500million each year on third party services and contracts. The Council has agreed a new Responsible Procurement Strategy to ensure that procurement, commissioning, and contract management activities are fully aligned with Fairer Westminster and deliver maximum value for Westminster and its residents and partners. The Council will use its significant spend to influence and create positive action on tackling the climate emergency (as well as contributing to local and national recovery, leveraging community benefit, and driving forward greater diversity and inclusion in its supply chain). One element of the Responsible Procurement Strategy is the Supplier Charter, which outlines a set of commitments that suppliers are asked to make to demonstrate that they share the Council's responsible business ambitions.

15.3. The Westminster Pension Fund continues to draw down on its Renewable Energy Infrastructure commitments, with a total of £110m currently committed. As of December 2022, £58m of the committed £110m has been invested, whilst the carbon footprint of the pension fund has decreased 65% from the November 2018 baseline.

15.4. In September 2022 the Council introduced its Carbon Impact Evaluation Toolkit (CIET) to help analyse the carbon impact of its capital expenditure strategy. As part of the capital bid process, all project owners were asked to use the CIET to assess the carbon impact of their projects. The results of this activity will be presented to cabinet in early 2023, whilst the toolkit will go through further enhancement before the next round of bids. The Council have also begun activities to better capture our Scope 3 emissions. Currently our CEAP primarily focuses on the council's Scope 1 & 2 emissions, however we recognise the importance in better understanding and addressing our Scope 3 emissions.

16. Equalities Impact Assessment

16.1. 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.

16.2. 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.

16.3. 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 6. 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

17. Consultations

17.1. As part of the financial planning process the Council consulted with businesses and the responses have been considered as part of the proposed 2023/24 budget.

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

Appendices

Appendix 1 – List of new savings

Appendix 2 – Service Pressures and Investments

Appendix 3 – Previously agreed savings

Appendix 4 – Summary of Gross, Income and Net budgets

Appendix 5 – Net Budget Trail

Appendix 6 – Council Tax Resolution

Appendix 7 – EIA Summary

Appendix 8 – Scrutiny Budget Task Group Papers

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

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