City of Westminster

Decision Maker:	**Audit and Performance Committee**
Date:	**28 November 2023**
Classification:	**General Release**
Title:	**2023/24 Quarter 2 Financial Monitoring**
Wards Affected:	**ALL**
Key Decision:	**No**
Financial Summary:	**The report summarises the Council's 2023/24 Quarter 2 financial position**
Report of:	**Gerald Almeroth, Executive Director – Finance and Resources**

1. Executive Summary

1.1 This monitoring report presents the Council's summarised 2023/24 Quarter 2 financial position and that any known and significant factors up until the report submission have been considered in the forecasts together for the remainder of the year. The forecast has been based on activity trends and analysis to date.

1.2 It is worth noting that there have been some name changes amongst some of the directorates:

- Growth, Planning and Housing is now Regeneration, Economy and Planning
- Environment and City Management is now Environment, Climate and Public Protection

Revenue Summary

1.3 The forecast General Fund revenue outturn is a projected underspend of £2.420m (1.25% of net budget £193.611m, there was a £3.258m overspend at Quarter 1).

1.4 The Housing Revenue Account (HRA) is projecting an operating deficit of £1.895m at Quarter 2. This is being offset by earmarked reserves that were created in 2022/23 specifically to manage some of the emerging cost pressures.

Capital Summary

1.5 The Quarter 2 Capital Programme forecast position is £106.339m gross expenditure variance and £38.958m financing variance (made up of external funding and S106 and CIL).

1.6 Further details are included in section 15 of this report.

Savings

1.7 Savings achieved year to date are now reported as £2.545m; with 91.2% of savings (£21.909m) either on target to be achieved in year or achieved (£19.984m).

2. Recommendations to Audit and Performance Committee

2.1 That Audit and Performance Committee notes the current monitoring and forecast position at Quarter 2 for 2023/24.

3. Revenue Budget Overview

3.1 In March 2023 Full Council approved the 2023/24 budget which included £25.907m of savings and £34.188m of investment and pressures to the General Fund. As at Quarter 2 of the 2023/24 financial year the General Fund revenue position is reporting a forecast underspend of £2.420m against a budget of £193.611m.

3.2 Primarily this is due to the following reasons:

- Temporary Accommodation (TA) significant adverse variance due to high demand combined with a significant squeeze on available supply.
- Regeneration, Economy and Planning have an adverse variance within Town Planning due to income levels in Planning continuing to drop, with the income projection for 2023/24 now expected to be lower than the 2022/23 outturn.
- Finance and Resources favourable variance due to interest earnings – the projected return on cash balances is driven by higher average interest rates and higher average balances than anticipated when budget setting.
- Children's adverse variance within Family Services due to costs in relation to families with no recourse to public funds (NRPF) continue to increase with the Quarter 2. This is due to the increasing cost of accommodation for those families and staffing pressures. Social Care placements that have a health element have been joint funded by the NHS Integrated Care Board (ICB). The ICB have not agreed any new cases for this financial year, resulting in a forecast shortfall.
- Children's adverse variance on short breaks – the short breaks overspend relates to the service needing to run across two sites until works at the Tresham site are complete (scheduled to be completed by March 2024).

3.3 The Housing Revenue Account (HRA) is projecting an operating deficit of £1.895m at Quarter 2. This is being offset by earmarked reserves that were created in 2022/23 specifically to manage some of the emerging cost pressures. Costs are continuing to increase at a faster rate than the CPI allowance that was made in the business plan, with Repairs spend outstripping the existing budget by £3m. The HRA Business Plan anticipated a need for some budget growth in 2023/24 to meet the requirements of the Building Safety Act. However, the recurring annual budget requirement is now estimated to be up to £3m which means that additional growth will need to be built into the HRA Business Plan (with the additional spend in 2023/24 being met from earmarked reserves, as noted above). Finally, the HRA Business Plan includes assumptions about the delivery of new build social units each year in relation to additional rental income, but delivery is slightly behind the assumed profile and this is causing a small adverse variance on rental income. There are several underspends across the HRA that are helping to offset some of these pressures. Further details are included in section 12 of this report.

3.4 Table 1 summarises the Quarter 2 General Fund position.

Table 1 - Revenue Finance Position and Forecast – Quarter 2 Financial Year 2023/24 (£m)

Executive Directorate	Q2 2023/24 Budget £m	Q2 2023/24 Forecast £m	Q2 2023/24 Variance £m	*Q1 2023/24 Variance £m*	Q2 Risks Identified £m	Q2 Opportunities Identified £m	Q2 Projected Variance inc Opps and Risks £m
Adult Social Care	53.025	53.025	0.000	*-*	-	-	0.000
Public Health	(1.141)	(1.141)	0.000	*-*	-	-	0.000
Regeneration, Economy and Planning	4.425	6.625	2.200	***1.600***	0.300	(0.095)	2.405
Housing and Commercial Partnerships	26.756	44.287	17.531	***9.544***	4.082	-	21.613
Finance and Resources	11.499	(11.838)	(23.337)	***(9.545)***	0.220	-	(23.117)
Corporate Items	38.687	38.087	(0.600)	*-*	-	-	(0.600)
Environment, Climate and Public Protection	(3.295)	(3.455)	(0.160)	***0.320***	1.880	(0.250)	1.470
Children's Services	40.396	42.815	2.420	***1.339***	1.130	(0.080)	3.470
Innovation and Change	19.962	19.488	(0.474)	*-*	0.283	(0.100)	(0.291)
Other Corporate Directorates	3.298	3.298	-	*-*	-	-	0.000
NET CONTROLLABLE BUDGET	**193.611**	**191.191**	**(2.420)**	***3.258***	**7.895**	**(0.525)**	**4.950**

Inflation

3.5 Inflation has fallen over recent months and currently stands at 6.7% at September 2023. However, it remains higher than originally forecast and therefore is still an area of concern to the Council's financial position and requires attention. At Quarter 2 pay and contract inflation pressures were reported at £20.274m (£19.853m at Quarter 1). This increase is predominately due to additional contract inflation requests from suppliers.

- **Pay:** The Council budgeted for 5% for 2023/24. The 2023/24 pay award has been agreed by two of the three unions in November and work is underway to clarify the financial impact for the current year, however for Inner London this will be a flat rate payment of £2,352 or 3.88% whichever is greater. It is currently estimated that each additional 1% would equal a £1.4m unbudgeted pressure.

- **Non-Pay:** Services are continuing to work closely with suppliers to minimize the impact of inflation. While some contracts have negotiated lower inflationary increases, there are still pressures across all services that need to be accounted for in their budgets.

Medium Term Financial Plan Monitoring – Savings

3.6 In March 2023 Full Council approved the 2023/24 budget which included £25.907m of savings.

3.7 Details of progress against approved savings are outlined in the commentary for each directorate in the table below. Where savings are not on track, the directorates continue to consider mitigations to bring the budget back on target for this year. Of the savings, 91.2% are either achieved or on target.

3.8 Further information relating to reprofiled and unachievable savings, as well as the mitigating actions being taken can be found in Appendix 1.

Table 2 - Approved Savings Progress (£m)

ELT	Saving Achieved	Part Achieved/On Track	Part or Completely Reprofiled	Part or Completely Unachievable	Total
Adult Social Care	300	1,655	-	-	1,955
Children's Services	190	843	25	700	1,758
Environment, Climate and Public Protection	1,233	9,590	830	-	11,653
Finance and Resources	-	3,878	-	250	4,128
Regeneration, Economy and Planning	150	700	-	-	850
Housing and Commercial Partnerships	75	415	-	-	490
Innovation and Change	397	358	-	120	875
Other Corporate Directorates	200	-	-	-	200
Total	**2,545**	**17,439**	**855**	**1,070**	**21,909**

General Fund Revenue Summary

4. Adult Social Care (ASC) £nil variance forecast

4.1 Adult Social Care is forecasting a break-even budget position against a net budget of £53.025m. However, this is made possible from additional funding £3.5m primarily linked to discharge pressures. In future years, there could be an adverse financial position if the additional funding does not continue.

4.2 The directorate has received £2m Market Sustainability and Improvement Fund - Workforce Fund in September. However, this is largely expected to be passported to care providers to increase social care capacity through increasing social care workforce capacity and retention, reducing social care waiting times and increasing fee rates paid to social care providers.

4.3 ASC continues to experience an increased cost pressures from greater complexity in care needs across homecare, placements, and hospital discharge. Demand continues to increase within homecare with an upturn in the number of clients anticipated and hours of care prescribed.

4.4 The number of homecare clients is now 2.2% and the number of hours per month are 1.6% higher than at the start of the year. The overall number of people in long term residential and nursing care are at similar levels to this time last year but due to complexity the cost of care is higher.

Public Health £nil variance forecast

4.5 The overall position is break even as this is a ring-fenced grant. However, in year, £2.125m of strategic investments are now expected to slip into future years which will increase PH reserve balance. Some of this slippage is due to strategic decision to delay, market capacity to undertake some of the projects and longer than expected time to complete full governance.

5. Regeneration, Economy and Planning (REP) Overspend £2.200m

5.1 The directorate is reporting an overspend of **£2.200m** at Quarter 2, which represents an increase of £0.600m since Quarter 1. This is due to income levels in Planning continuing to drop, with the income projection for 2023/24 now expected to be lower than the 2022/23 outturn.

Planning

5.2 If the proposed increase to centrally set planning fees comes in for the final Quarter of the year there is an opportunity for this position to improve by £0.095m. Meanwhile, a risk of £0.300m has been identified within Building

Control as the service gears up for the expected increase in workload linked to the Building Safety Act 2022. It is anticipated that the service will need to expand capacity before it is able to cover increased cost through fees.

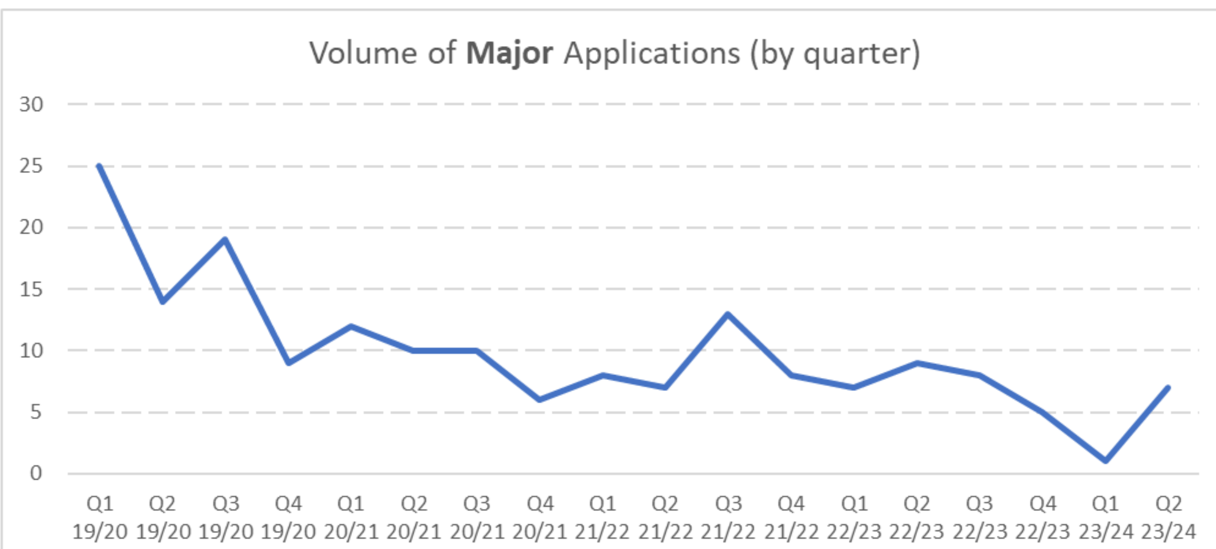
5.3 The total volume of planning applications as at the end of Quarter 2 is broadly consistent with the previous two financial years. However, there has been a material drop off in the volume of Major planning applications which generate the largest share overall fee income.

5.4 The table below shows a comparison of activity levels for planning and pre-planning applications:

Table 3 - Activity Levels for Planning and Pre-planning Applications

Application volumes at the end of Quarter 2	2019/20	2020/21	2021/22	2022/23	2023/24
Majors	39	22	15	16	8
Minors	1,448	1,030	1,603	1,524	1,407
Other	3,632	2,408	2,536	2,471	2,592
TOTAL	**5,119**	**3,460**	**4,154**	**4,011**	**4,007**

This is consistent with the general trend over the last 5 years, as shown below:



5.5 Whilst the volume of Major applications has recovered slightly in Quarter 2, the income projection for 2023/24 is now forecast to be lower than 2022/23.

Economy

5.6 Elsewhere in REP, the Economy service is projected to meet its £3.3m external funding requirement for 2023/24. The General Fund supports less than 40% of the overall cost of the service, with the remainder coming from external sources (e.g. grants, S106, etc). The majority of this target has already been identified and there is just £200k remaining.

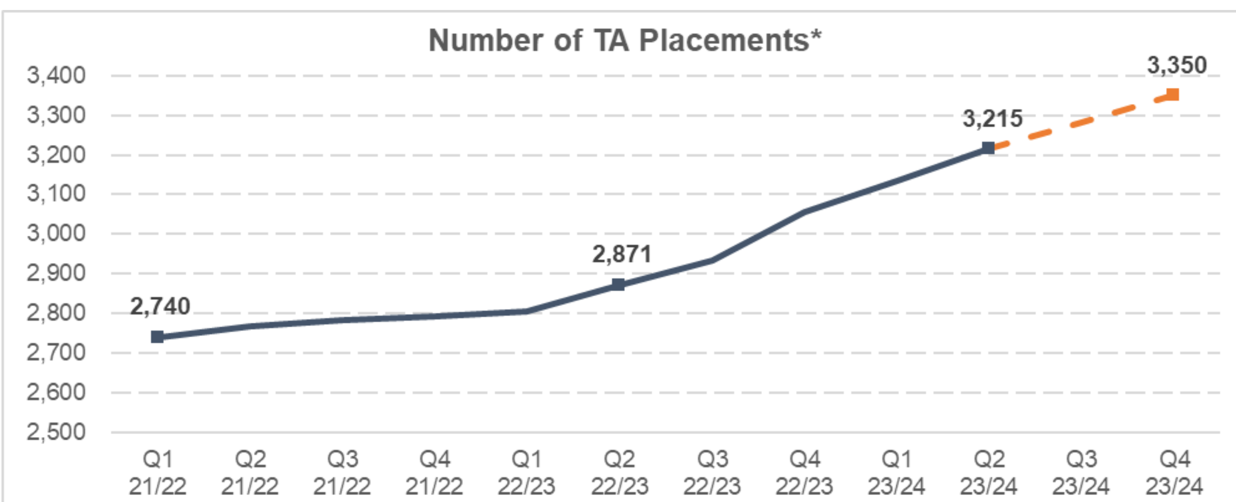
6. Housing and Commercial Partnerships — Overspend £17.531m

6.1 The Housing General Fund budget is projecting a budget pressure of £17.531m at Quarter 2 (£9.544m at Quarter 1). This is entirely driven by spend on Temporary Accommodation (TA) which is experiencing a large increase in demand combined with significant increases in the cost of existing stock, reductions in the volume of existing supply and very limited availability of additional properties. Risks totalling £4.082m have also been identified, which relates to inflation on contracts and TA supply arrangements.

Temporary Accommodation (TA)

<u>Demand</u>

6.2 The service has experienced a sharp increase in demand for TA since the beginning of 2022/23. The number of TA placements has risen to over 3,200 versus 2,871 at the end of the equivalent Quarter in 2022/23 (a 12% increase in the last 12 months).

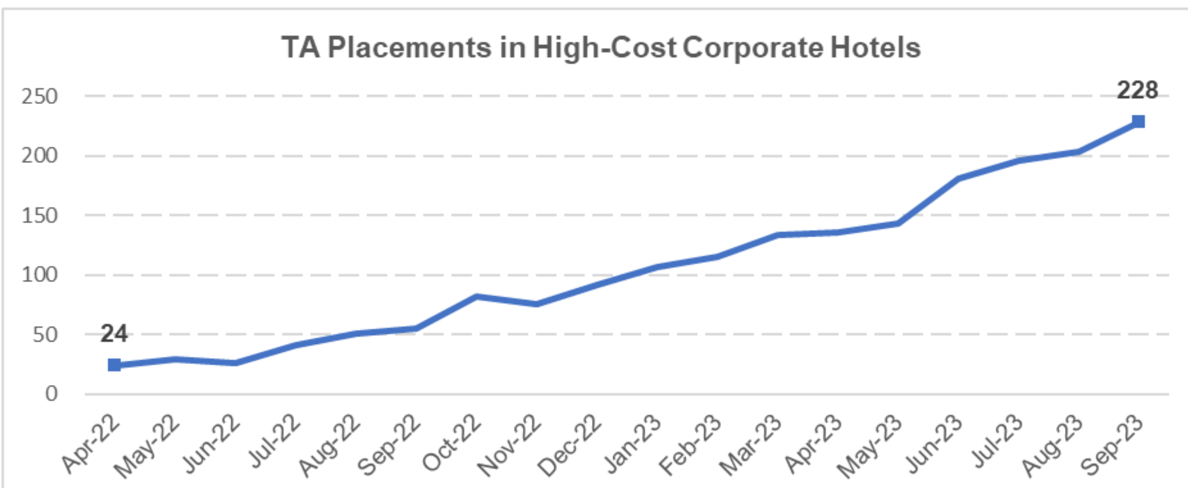


* **Note:** The number of TA placements is a slightly higher measure than the number of households in TA (but more relevant to cost)

WCC TA Placements (by supply type)

	March 2022	March 2023	September 2023 (Q2)	2023/24 Mvmt
Nightly Booked	530	683	825	142
Leased	2,029	2,081	2,064	-17
WCC Owned	274	292	326	34
Total	2,833	3,056	3,215	159

6.3 The supply breakdown in the table above highlights some of the supply challenges facing the Council. The volume of available supply from the private rental sector has decreased by 17 units over the last 6 months which means that the majority of new demand is being met using nightly booked accommodation (which has increased by 21% since March 2023, reflecting the enforced use of commercial hotels and apartments to meet statutory duties). The chart below shows the increase in the use of high-cost corporate hotel bookings since the beginning of 2022/23 which is the largest single driver of the overall increase in TA spend.



<u>High-cost provision</u>

6.4 The other key trend is that existing landlords are experiencing higher costs. In some cases, this is causing them to exit the TA market altogether (as noted in the figures above), but the more general trend is for existing lease arrangements to be re-negotiated to prevent loss of units. Alongside the use of high-cost hotel supply, this is also contributing to the upwards trajectory in the average weekly cost of TA supply.

6.5 The Quarter 2 TA forecast is predicated on some important assumptions (for which any adverse movement would increase the budget pressure):

- Demand increasing to 3,300 households in TA by the end of 2023/24;
- An expectation that c.80% of new demand will be met using hotel provision;
- No further removals of existing PSR supply due to landlords exiting the TA market.

6.6 The Housing service is exploring a number of interventions to contain the projected budget pressure (and ultimately reduce it). A Strategic Lead for TA has been appointed and the delivery of a programme of measures will be managed under the oversight of a new Board. These include:

- Further acceleration of TA acquisitions (with 102 purchases forecast in 2023/24)
- Increased contractor capacity to turn around TA voids
- Alternative procurement arrangements for high-cost provision
- Investment in prevention activity

7. Finance and Resources — Underspend £23.337m

7.1 At Quarter 2 the Directorate is reporting a favourable variance of £23.337m against the approved budget of £11.499m.

Corporate Property

7.2 Corporate Property is not reporting any variances, risks or opportunities at Quarter 2. As at the end of September 2023, 38 units (both GF and HRA) were vacant but of these 28 were not being marketed due to regeneration requirements, two were under offer. One completed in September and 7 were being marketed. 28 day investment income collection rates in August 2023 were 94.07% compared with 88.57% in August 2022.

Finance/Treasury and Pensions

7.3 Treasury and Pensions is forecasting a favourable variance of £23.337m in Q2. The projected return on cash balances of £50m against a budget of £26.283m. This is driven by higher average interest rates and higher average balances than anticipated when budget setting. Inflation has remained relatively high, therefore interest rates have remained high in an attempt to bring inflation under control. This is the driver of high interest earnings. Investment balances are currently £338.5m higher than the balances at March 2023, with an average interest rate of 5.23%. Any additional interest earnings received will mitigate in-year budget pressures across the council as well as being used to support the delivery of the capital strategy.

7.4 Finance is showing a net risk of £0.220m, following the latest external audit valuation requirements and procurement there is a pressure of up to £0.120m per annum identified. In addition to this contract inflation pressures are being monitored particularly relating to Hampshire IBC £0.110m pending LA pay awards and Insurance Premiums increases of 13.5% £0.770m which can be partly mitigated through Insurance reserves and the corporate contract inflation budgets.

Digital and Innovation

7.5 The favourable variance in Treasury & Pensions is offset by an adverse variance in Digital & Innovation of £0.187m largely relating to an increase in contract costs on the Lot 9 contract with BT relating to a technical adjustment (£0.080m), and proof of concept work that was completed relating to Report-It chat-bot and AI discovery.

7.6 There is a risk that salaries cannot be capitalised at the level budgeted, this is being monitored closely. Salaries may be capitalised if they can be directly attributable to the delivery of a capital asset. How the Digital Team delivers its capital programme will inform the level of capitalisable salaries by year-end.

Revenue and Benefits

7.7 Revenue and Benefits is also reporting an unfavourable variance of £0.250m at Quarter 2 due to reduced income levels from cost of collection grant and court costs.

8. Environment, Climate & Public Protection Underspend £0.160m

8.1 At Quarter 2, there is a favourable variance of (£0.160m) against the approved net budget of (£3.295m). This represents an improvement of £0.480m from Quarter 1. Net Risks and Opportunities have increased by £0.630m to £1.630m.

Parking

8.2 Parking continue to report a nil variance at Quarter 2 comprised of offsetting variances. The level of risk has increased by £1.000m from Quarter 1 to £1.500m.

8.3 Paid For Parking is forecast to under recover by £2.800m. Transaction volumes remain below last year (3.03m Quarter 2 2023/24 vs 3.09m Quarter 2 2022/23), and the average value continues to be suppressed by increasing use of less polluting vehicles. The change to an emissions-based charging structure will take place later than had been forecast, resulting in a reprofiling of £0.800m of the associated saving into 2024/25.

8.4 Pressures are reported in other income streams with £0.250m shortfall now forecast in respect of Resident Permits linked to cleaner fuelled vehicle use, and £0.175m reported pressure in Trade Permits and Dispensations, both of which continue to see low volume.

8.5 Suspensions income is £0.300m behind profile at Quarter 2. This is a slight improvement from Quarter 1 position but the income stream is very volatile and other income streams with similar drivers are also seeing lower activity. The forecast of £0.425m shortfall is unchanged from Quarter 1, and there remains a risk of £0.500m further adverse movement. In addition there has been a legal challenge from a customer against charges applied, and a further £0.500m risk is included in respect of that.

8.6 PCN income is forecast to over recover by £4.000m, offsetting other shortfalls. The forecast relates primarily to marshal-issued PCNs where high contravention rates continue to support additional enforcement on street, with £0.100m forecast from additional CCTV PCNs as the rolling programme of camera review and installation anticipates adding further cameras in Q3. £1.060m of additional costs are forecast associated with the increased activity around PCNs.

8.7 Parking report a net underspend of £0.710m. The Concessionary Fares underspend of £1.900m remains as reported at Quarter 1, but is offset by £0.450m one-off overspends due to the contract transition, and £0.740m other overspends which the service is looking to address and avoid recurrence.

8.8 ***Public Protection and Licensing (PP&L)***

8.9 An adverse variance of £0.270m is reported at Quarter 2, realising the risk reported at Quarter 1 in respect of Houses in Multiple Occupation (HMO) Licensing, where the increase in fees will take effect from 2026/27 due to the licences being renewable on a 5 year basis.

8.10 PP&L reported a risk of £0.500m at Quarter 1. This has been reduced to £0.130m with the shortfall in HMO income now recognised, and with other income streams such as LA03 currently performing well. Sex shops have seen a decline in income generation post covid as a result of lower footfall and a decline in business operators, giving rise to a risk of £0.030m. Pre Planning Advice and Pre Application Advice currently also have very low demand levels, not yet returning to pre-pandemic levels, thus a risk £0.100m risk of income under achievement has been recognised. The income activity will be monitored during the year.

8.11 ***Waste and Cleansing***

8.12 The service is forecasting an underspend of £0.430m, a favourable movement of £0.750m since Quarter 1. This is mostly due to commercial waste income over-recovering by £1.000m as a result of increased sales. However, this favourable variance is partially offset by a number of overspends.

8.13 Public conveniences is forecasting to overspend by £0.110m due to income under recovery. The planned renovation programme will seek to improve future income by providing more attractive, higher quality facilities less vulnerable to closures and with cashless systems that are predicted to increase usage.

8.14 There are also pressures within the cleansing service that relate to the additional rapid response weekend service to improve cleaning standards across the borough and an additional graffiti team along with other offsetting variances giving an overspend of £0.210m.

8.15 Waste disposal is forecasting an overspend of £0.250m as a result of increasing volumes of commercial waste collected, along with a fall in income generated from the sale of recyclable material (in a volatile market).

8.16 Commercial Waste presented an opportunity of £0.500m at Quarter 1 which has been partially realised. Commercial waste income is currently over-recovering and a forecast of £1.000m has been included, however there is the potential for the over-recovery to be greater than this. Prices were increased this year and the impact on sales income will be monitored to see if income continues to exceed the higher budget. If it does continue then the remaining opportunity of £0.250m will be included into the forecast position.

8.17 Due to increasing tonnage collected and the fall in income raised from the sale of recyclable material, disposal costs will potentially overspend this year. A risk of £0.500m was reported at Quarter 1 and half of this has now been moved to the forecast. A one-off reserve of £0.500m will partially offset the remaining variance in this year. leaving a forecast overspend of £0.250m. Tonnage levels will continue to be monitored.

9. Children's Services — Overspend £2.420m

9.1 At Quarter 2 the Directorate is reporting adverse variance of £2.420m against the approved budget of £40.396m.

Family Services

9.2 Increasing costs in relation to families with no recourse to public funds (NRPF) have resulted in pressure on the budget with a total forecast overspend of £0.500m. This is due to the increasing cost of accommodation for these families. Staffing pressures due to difficulties in recruiting into social work teams and the use of agency staff have resulted in a £0.300m pressure.

9.3 Social Care placements that have a health element have been joint funded by the NHS ICB. The ICB have not agreed any new cases for this financial year, resulting in a forecast shortfall of £0.400m. The approach is being challenged but there is a risk that this shortfall increases by a further £0.650m if the situation does not change.

9.4 Registrars income is overachieving against their income target by £0.283m due to increased volume of registrations.

9.5 Funding received from health for the joint funding of placements with health needs is at risk of not achieving the budgeted income target. The income budget was increased in 2023-24 by £0.650m with the expectation that cases that had been self assessed to have a health need would be accepted by the Integrated Care Board (ICB).

Operations and Programmes

9.6 The Short Breaks service continues to have a pressure of £0.791m. Part of the overspend relates to the service needing to run across two sites until works at the Tresham site are complete. The Tresham refurbishment is due to be completed by January. The service is currently being reviewed and opportunities for cost reductions and cost avoidance will be sought through this process.

Education

9.7 The pressure within Virtual School of £80k, due to overspends on staffing and a reduction in DSG contribution and School Standards of £50k, due to an unachievable savings related to Education Funding and Efficiencies is partly offset by a minor underspend within Transport (-£6k).

9.8 There is a risk that the demand for SEN Transport services increases due to new starters exceeding the estimated number, this is estimated to be up to £0.480m. The actual impact will become clearer in the next month. This is offset by a potential opportunity of up to £0.080m if transport cancellations are higher than the estimated number.

Libraries and Archives

9.9 There is a shortfall on the libraries income target of £0.162m.

10. Innovation and Change Underspend £0.474m

10.1 At Quarter 2 Innovation & Change is currently reporting a favourable variance of £0.474m against the approved budget of £19.962m. There are currently reported risks of £0.283m and a reported opportunities of £0.100m.

City Promotions, Events and Filming

10.2 The net favourable forecast variance includes additional income in City Promotions, Events and Filming of £0.399m, and also within Cemeteries of £0.100m, offset by an underspend on Member Allowances £0.042m, an underspend on salaries across the directorate £0.073m on part year vacancies.

Sports, Leisure and Active Communities

10.3 Communities (£0.233m in Sports, Leisure and Active Communities (SLAC)), relating to staffing £0.197m, a Health and Safety audit of £0.036m in Leisure and a further £0.050m in IT costs in Westminster Connects. There is also an opportunity in SLAC from Cemeteries income of £0.100m.

11. Other Corporate Directorates Underspend £0.600m

11.1 At Quarter 2 the Directorate is reporting a £0.600m underspend against the approved budget of £3.298m, this is due to bad debt provision savings. There are no reported risks or opportunities.

12. Housing Revenue Account £nil variance forecast

12.1 The Housing Revenue Account (HRA) is projecting an operating deficit of **£1.895m** at Quarter 2. This is being offset by earmarked reserves that were created in 2022/23 specifically to manage some of the emerging cost pressures.

12.2 The main drivers of the operating deficit are as follows:

- **Repairs** – Costs are continuing to increase at a faster rate than the CPI allowance that was made in the business plan. This is most keenly felt on quoted works. Repairs spend is outstripping the existing budget by £3m.

- **Health & Safety** – The HRA Business Plan anticipated a need for recurring budget growth in 2023/24 to meet the requirements of the Building Safety Act. There was an expectation that some of the initial activity required to keep the stock compliant could be managed as one-off investment (hence the availability of an earmarked reserve for this purpose). However, the revised estimates have resulted in forecast expenditure of £3.180m for 2023/24, which outstrips the budget growth and creates a pressure. The recurring annual budget requirement is now estimated to be £2.350m which means a lower proportion of the spend can be managed as a one-off and additional growth will need to be built into the HRA Business Plan.

- **Rental Income** – The HRA Business Plan includes assumptions about the delivery of new build social units each year in relation to the additional rental income that they will generate. Two schemes are still due to complete in 2023/24, at Lisson Arches and 300 Harrow Road, adding a combined 137 new social units. The rent projection is based on the current stock baseline and is £700k lower than budgeted. However, if these units can be operational and tenanted by the beginning of 2024 then this budget pressure will reduce by £360k.

12.3 There are several underspends across the HRA that are helping to offset some of the pressures noted above:

- **Borrowing Costs** – The HRA is projecting to borrow £44m at Quarter 2, which means that the borrowing requirement is currently running slightly below the profile set in the Business Plan (due to a more favourable external funding profile). This means that the projected cost of borrowing for 2023/24 is lower than budgeted (although this will correct in later years, as the overall quantum of new borrowing remains the same).

- **Revenue Contribution to Fund Capital** – The HRA budget includes an expected contribution of £2.688m from the revenue budget to fund capital (and reduce borrowing). However, this is a flexible contribution and can be diverted to support revenue activity if there are budget pressures like the ones being experienced in 2023/24.

- **Staff Costs** – the HRA is projecting an underspend on staff costs of roughly £0.7m. This is driven by vacancies and is much lower than in previous years. Recruitment is on-going in a number of areas, particularly in relation to initiatives being driven by the Housing Improvement Programme.

13. Council Tax and Business Rates collection

13.1 As at September 2023 Council Tax collection rate to date is 58.52% which is 1.10% higher than the same month last year.

13.2 The Business Rates collection rate for September 2023 is 57.46%, which is 1.29% higher than the same month last year.

	September 2023 Collection Rate	September 2022 Collection Rate	September 2021 Collection Rate	September 2020 Collection Rate	September 2019 Collection Rate	2023 vs 2022 Difference
Business Rates	57.46%	56.17%	49.18%	49.81%	59.56%	1.29%
Council Tax	58.52%	57.42%	57.61%	57.27%	62.14%	1.10%

13.3 By way of comparison, collection rates for business rates and council tax remains below pre-pandemic levels (September 2019 collection rate) at the Quarter 2 position.

14. Fees and Charges

14.1 The Council has a 2023/24 Fees and Charges income budget of £183.633m. As at Quarter 2, it is forecast to have an adverse variance of £0.693m. This is reported as variances in the relevant directorate commentary above.

14.2 This is mainly due to the following income streams:

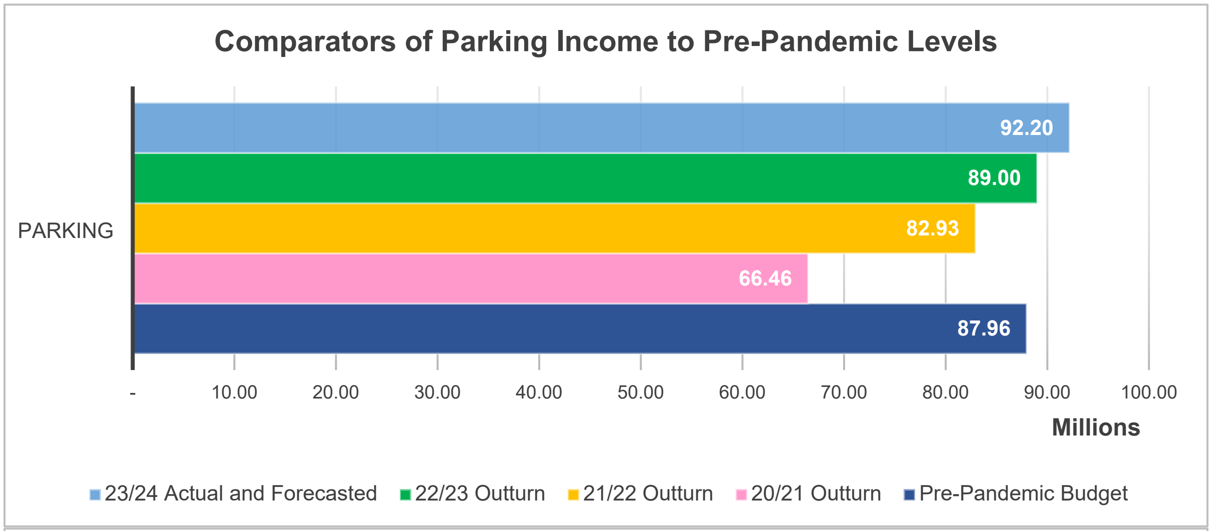
- Parking Penalty Charge Notice Marshals forecasts £3.900m more income than budgeted for as continued high contravention rates support continued additional enforcement on street, leading to an increased PCN income forecast.

- Paid for Parking forecasts an adverse variance of £2.800m. Transaction volumes are in the region of 97% of those seen last year, and while the average value per transaction remains about 5% higher than last year, the increase is not as high as the overall percentage applied through fees and charges as a result of changing behaviours and a continued move to less polluting vehicles.

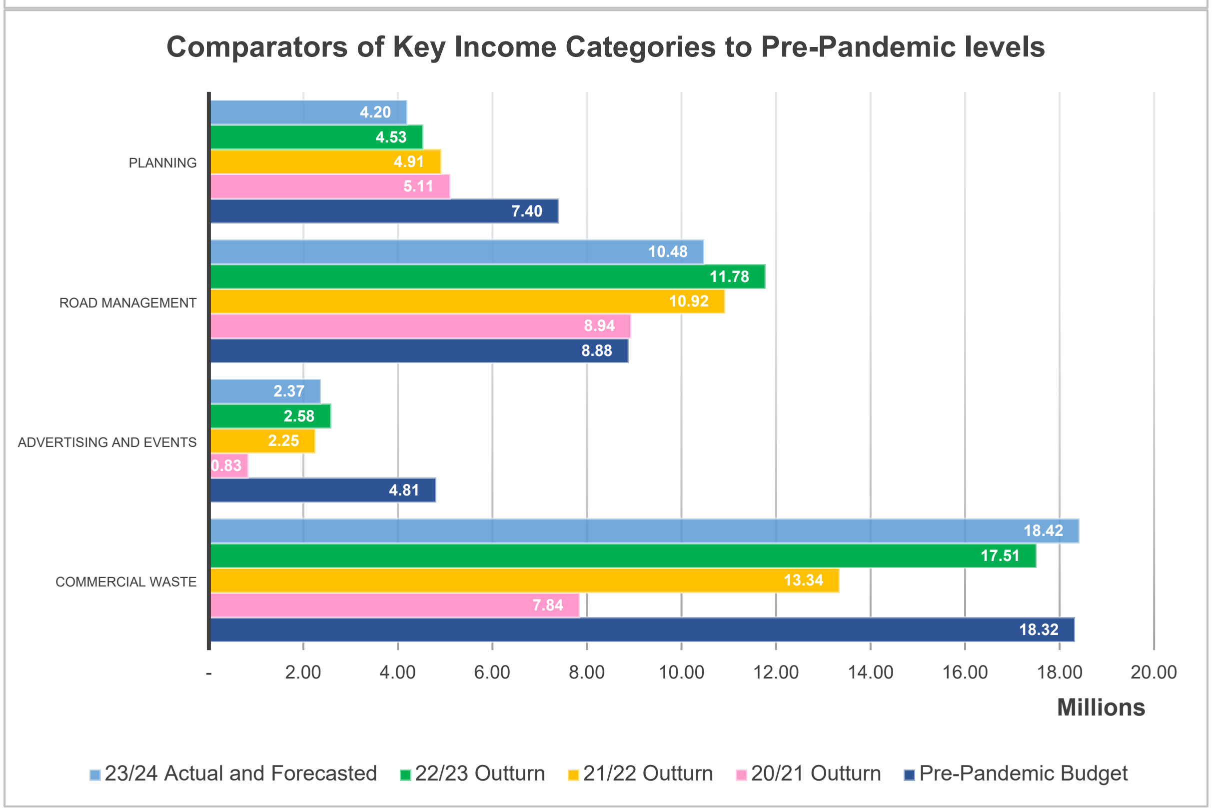
- Planning forecasts an adverse variance of £2.200m as activity remains significantly below pre-pandemic levels with only 8 major applications received to date compared to 16 in 2022/23.

- Commercial Waste income is forecasting an over-recovery of £1.000m, with an additional of £0.250m declared as an opportunity. Income is exceeding that from the same period last year by £1.050m and bag sales are higher by 1,575 units (6%) indicating there is ongoing growth rather than the increase being only due to price increases. However the budget is greater this year to reflect recovery from covid along with inflationary increases.

14.3 The key income streams are summarised in the graphs below. The graphs show indicative forecasts for the full year and compares these with prior years and pre-pandemic budgets.



Comparators of Parking Income to Pre-Pandemic Levels
PARKING
92.20
89.00
82.93
66.46
87.96
-
10.00
20.00
30.00
40.00
50.00
60.00
70.00
80.00
90.00
100.00
Millions
23/24 Actual and Forecasted
22/23 Outturn
21/22 Outturn
20/21 Outturn
Pre-Pandemic Budget



Comparators of Key Income Categories to Pre-Pandemic levels
PLANNING
4.20
4.53
4.91
5.11
7.40
ROAD MANAGEMENT
10.48
11.78
10.92
8.94
8.88
ADVERTISING AND EVENTS
2.37
2.58
2.25
0.83
4.81
COMMERCIAL WASTE
18.42
17.51
13.34
7.84
18.32
-
2.00
4.00
6.00
8.00
10.00
12.00
14.00
16.00
18.00
20.00
Millions
23/24 Actual and Forecasted
22/23 Outturn
21/22 Outturn
20/21 Outturn
Pre-Pandemic Budget

15. Capital Budget 2023/24

15.1 The Quarter 2 Capital Programme forecast position is a projected £106.339m gross expenditure variance and £38.958m financing variance (£106.339m including borrowing).

15.2 The table below summarises the Council's budget and forecast position at Quarter 2 on the 2023/24 capital programme.

Table 4 – Capital budget and forecast position 2023/24

ELT Directorate	2023/24 Expenditure Budget £m	2023/24 Expenditure Forecast £m	2023/24 Expenditure Variance £m
Adults & Deputy Chief Executive Services	16,795	6,000	(10,795)
Children's Services	6,578	5,846	(732)
Housing & Commercial Partnerships	32,241	56,657	24,416
Regeneration, Economy and Planning	76,721	49,764	(26,957)
Environment, Climate and Public Protection	134,070	84,193	(49,877)
Finance and Resources	58,296	41,963	(16,333)
Innovation and Change	6,698	6,994	296
Westminster Housing Investments Limited	28,987	2,630	(26,357)
Total Expenditure	**360,386**	**254,047**	**(106,339)**

Capital Financing	2023/24 Budget £m	2023/24 Forecast £m	2023/24 Variance £m
External Funding	(57.708)	(41.822)	15.886
S106 and CIL	(33.057)	(9.985)	23.072
Capital Receipts	(28.589)	(11.845)	16.744
Borrowing	(241.032)	(190.395)	50.637
Total Financing	**(360.386)**	**(254.047)**	**106.339**

15.3 The most significant expenditure variances are explained in the table below.

Table 5 – Key Capital Schemes 2023/24

Project	2023/24 Variance to Budget £m	Comments
Westminster Housing Investment Limited	(26.357)	The original budget assumed investment in Ebury Phase 2- this is no longer planned for this financial year due to on-site delays. Phase 2 is now scheduled for 2024/25. Furthermore, a £9.000m acquisition at Harrow Road will now be purchased directly by Westminster Builds. The 2023/24 variance has been reported as underspend and the future year budgets have been updated.
Oxford Street	(9.374)	The provisional budget reflected at Quarter 1 has now been refined, this is why there is a variance to budget. The £5.700m forecast reflects the anticipated scheme costs for 2023/24. These include Design Stage 2 at Oxford Street, Design Stage 1 at Oxford Circus and design costs for complimentary streets and Highways enabling costs.
District High Streets	(3.021)	This project requires extensive consultation with the local community to shape the delivery of the programme. As a result, it is still in the design and scope stages. and the £0.411m expenditure forecast is based on these costs plus internal salaries. The remaining budget has been reprofiled to 2024/25 to reflect expected delivery and is likely to be refined further.
Public Conveniences Renovation	(2.874)	Surveys and compliance works have taken place. Costing from partners, including FM Conway are outstanding but expected imminently. The strategy, design and proposed programme of works will then be taken to Capital Reporting Group and the Cabinet Member for approval. Once agreed, it is expected that works will commence this year for the Neighbourhood sites. However, due to the complexities of underground public conveniences, work will commence next financial year with sites being renovated one at time in order to minimise disruption, hence reprofiling to 2024/25.

North Paddington Place Plan	(2.817)	The 1st year programme has now been agreed and spend has been profiled into financial years 2023/24 and 2024/25. The £5.000m per year budget was provisional and the £2.183m forecast is based on expected programme delivery. The remaining £2.817m budget will be slipped to 2024/25 and will fund the 2nd year programme, which is currently in development. Delays can be attributed to the complexities of planning and development within the Council, as there is input from multiple areas.
Electric Street Cleansing Vehicles	(2.500)	The strategy has been approved by the responsible cabinet member and Cabinet Review Group. Purchase orders have been raised for £7.800m of vehicles. It is expected £5.500m will be delivered this financial year with the remainder being delivered early in the next financial year (2024/25). The reprofiling is attributable to delays in planning permission for depot electrical works. This then had a knock-on effect in delaying site works.
Green Spine Phase 2	(2.407)	Phase 2 has been delayed to 2024/25 as the focus is on Phase 1 completion. The Phase 2 budget has been reprofiled into future years to reflect the current delivery expectation.
WEP- The Strand Aldwych	(2.391)	The £2.391m variance includes previously profiled £1.000m of permanent space costs which will be reprofiled to 2025/26 in line with current delivery forecasts as conversations with external partners are ongoing. Approximately £1.391m will be recorded as an underspend against the Meanwhile programme, however, the final amount will be known at Quarter 3 once the final account from FMC have been received.
Landlord Responsibilities	(2.390)	The overall progress on the work programme has been slower than expected due to contractor performance. A main contractor is about to be appointed which will speed up delivery- the variance is reporting as underspend as reprofiling the variance to 2024/25 would result in an undeliverable 2024/25 expenditure budget.

Lisson Grove Programme- General Fund Acquisitions	(2.207)	The scheme is still in the concept design phase, therefore the only related expenditure in 2023/24 relates to legal fees. Expenditure has been reprofiled to 2025/26.
Seymour Leisure Centre New Build	1.479	The original budget assumed that construction would commence at a later date. However, construction has now begun at the site, resulting in a partial reprofiling of the 2024/25 budget to 2023/24.
20 In-Borough Acquisitions for Temporary Accommodation	24.579	In order to reduce WCC's reliance on expensive emergency temporary accommodation provisions, acquisitions have been completed at a faster pace to mitigate these costs. This was part of the Temporary Accommodation strategy to target current pressures. Future year budgets (from 2024/25 and 2025/26) have been reprofiled to 2023/24.
Total	**(30.280)**	

15.4 As can be seen in the table above, 12 projects contribute to the majority of the expenditure variance. By way of comparison there are over 250 projects in the 2023/24 capital programme, and therefore, just 5% of the projects are causing 28% of the expenditure variance.

16. Housing Revenue Account

16.1 The HRA capital budget and forecast position at Quarter 2 is summarised in the table below.

Table 6 – HRA Capital Budget and Forecast

HRA Capital Programme	2023/24 Budget (£m)	2023/24 Forecast (£m)	2023/24 Variance (£m)
Housing Planned Maintenance	60.796	60.796	0.000
Housing Regeneration	102.848	141.815	38.967
Other Projects	5.881	3.789	(2.092)
Total Capital Expenditure	**169.526**	**206.400**	**36.875**

16.2 At the end of Quarter 2, the expenditure forecast for the HRA capital programme is £206.400m. This represents additional capital spend of £20.053m in 2023/24 compared to the original budget of £169.525m.

16.3 The majority of this relates to an accelerated spend profile for schemes across the Development programme (i.e. planned future spend has been brought forward). The majority of these schemes remain on budget overall, with some projected increases on larger schemes due to be reviewed as part of the Council's updated capital strategy.

16.4 As a result, the HRA is now projecting a £48m borrowing requirement for 2023/24 versus the £nil expectation that was build into the HRA Business Plan. Part of this variance is driven by the additional £20m of spend noted above, with the remainder driven by external funding slipping into 2024/25. It is worth noting that HRA borrowing profiles have moved since the business plan was last refreshed (with 2022/23 borrowing lower than anticipated and 2024/25 also now expected to be lower). The revenue impact of increased borrowing will therefore be contained.

Table 7 – Key variances within HRA Planned Maintenance:

Component	2023/24 Expenditure Budget £m	2023/24 Forecast £m	2023/24 Variance £m
Electrical & Mechanical Services	6.400	7.729	1.329
Aids & Adaptations	1.800	1.800	0.000
Voids	3.900	8.633	4.733
Fire Precaution Major Works	2.056	9.022	6.966
Major Works	31.384	22.547	(8.837)
Fire Precaution (FST)	1.392	3.113	1.721
Delivery Adjustment	0.000	(5.755)	(5.755)
Other Schemes*	13.864	13.707	(1.570)
Total	**60.796**	**60.796**	**0.000**

16.5 At Quarter 2 there was no variance to the budget.

16.6 There is an increase in the forecast for Fire Precaution activity versus budget of £6.996m driven by an increase in the cost of materials and changes in the scope of works at Little Venice Towers (where all the secondary means of escape staircases and emergency lighting now need to be renewed, along with communal door upgrades).

16.7 The Voids forecast includes an increase of £4.733m versus budget. The service are projecting to complete 480 voids in 2023/24 at an average cost of £16,500. This is a higher volume than included in the budget provision, and the average cost has also risen in the last 18 months due to significant cost inflation.

16.8 There is a decrease in the Major Works forecast of £11.967m. This is due to on-going engagement with leaseholders in relation to estimated bills on a number of projects. The overall status of the Major Works programme is as follows: £20m worth of schemes already underway, £9m at the commissioning stage, and £2m in the process of being scheduled.

16.9 In order to maximise delivery versus available resources, the Planned Maintenance programme has deliberately been "over-programmed" (i.e. more projects were earmarked to be delivered in 2023/24 than the funding allocated in the HRA Business Plan). This means that the impact of the delays on the Major Works programme do not have an adverse impact on planned spend for 2023/24. In addition, the programme is still projected to over deliver by £5.755m (8.7%) at Quarter 2. This could be funded by the HRA if required and helps to ensure that schemes are advanced as quickly as possible. The 2023/24 projection represents a 15% increase on the £52m delivered in the last financial year.

Table 8 – Key variances within HRA regeneration and development:

Top Project	2023/24 Expenditure Budget £m	2023/24 Forecast £m	2023/24 Variance £m
Ebury – Phase 1	49.667	66.167	16.500
Pimilico (Churchill Garden)	1.939	10.489	8.550
Ebury -Phase 2	2.838	77.780	4.940
Queenspark Court	5.741	8.693	2.952
Infills	12.952	14.618	1.666
Church Street Phase 2	11.740	2.792	1.618
Carlton Dene	4.171	5.626	1.455
Total	**78.482**	**116.163**	**37.681**

16.10 At Quarter 2, there is a forecast overspend of **£37.681m** compared to budget. The increase is largely due to accelerated programmes of delivery and increased construction costs since the Business Plan was updated in Summer 2022.

16.11 There is an increase in forecast in-year on **Ebury Phase 1 (£16.500m) and Phase 2 (£4.490m).** The main contract value has increased via a deed of variation which has been approved via Cabinet Member Report. There has also been an increase to CIL costs as a result of tenure changes on the scheme and an update to consultancy fees to reflect the revised programme. Contractors cashflow assumptions have also been revised and some works, including Phase 2 demolition accelerated to 23/24. Overall, Phase 1 is forecasting an overspend of **£12.348m**. Phase 2 specifications and costs are still being finalised and value-engineered.

16.12 **Pimlico (£8.550m)**. Construction of Block A is ahead of schedule with confirmation received from the external QS. This is reflected in reduced forecasts for future years. Overall, the scheme has an overspend of **£6.7m** which will be contained within the current business plan.

16.13 **Queens Park Court, Torridon Car Park and Adpar Street (Infills)** are projecting higher spend in 2023/24 due to accelerated progress made on site by contractors. This will have no impact on the overall programme cost.

16.14 **Church Street (£1.618m)**. Increased overall forecast primarily related to an update of professional fees for preparation of demolition contract, and consultant support for the CPO process and JV Partner Procurement. Demolition budget has also been updated to reflect the revised cost plan.

16.15 **Carlton Dene (£1.455m)** is projecting higher spend in 2023/24 due to the Stage One contract being awarded earlier than anticipated. The increase in forecast will not have any material impact on the total costs over the life of the scheme, just the profile in this financial year.

Other Works

16.16 At Quarter 2 there is a forecast underspend of £2.092m on the Self-Financing scheme. This programme has been suspended due to a strategic decision to stop all disposals of HRA owned assets. However, a small balance of capital receipts remains and this is held in the HRA for emergency acquisitions (to meet specific housing needs). The Council's acquisition capacity has largely been re-directed to purchasing units for use as TA (due to the significant budget pressures within that service).

17. Subsidiaries Overview

17.1 This report provides a financial overview of the wholly owned Westminster Builds, Westminster Community Homes (WCH) and Westminster Communications (WestCo) up to September 2023/24.

Westminster Builds

Table 9 – Westminster Builds P&L Summary 2023/24

P&L Summary £000's	Actual YTD £'m	Revised Budget YTD £'m	Variance YTD £'m	Year End Forecast £'m	Revised Full Year Budget £'m	23/24 Budget £'m
Total Income	585	585	-	1,299	1,299	1,150
Total Expenditure	(147)	(147)	-	(319)	(319)	(357)
Operating Surplus/(Deficit)	438	438	-	980	980	793
Net Interest	(332)	(332)	-	(684)	(684)	(900)
Profit/(Loss) Before Tax	106	106	-	296	296	(107)

17.2 The profit for Quarter 2 is £106k (Quarter 1 is £26k). At Quarter 2 the forecast was revised. The current forecast is now a profit of £296k, an improvement of £403k from the 23/24 budget. This is mainly due to:

- 300 Harrow Road direct acquisition leading to approx. £129k of interest savings.
- Working Capital Loan being repaid leading to £44k of interest savings.
- Higher than expected bank interest which is now forecasted at £166k.

17.3 The forecast presented above does not include profit from Luton Street sales which are due to be fully received by 31st March 2024.

Westminster Community Homes

Table 10 – Westminster Community Homes P&L Summary 2023/24

P&L Summary £000's	Actual YTD £'m	Budget YTD £'m	Variance YTD £'m	Year End Forecast £'m	Full Year Budget £'m
Total Income	2,599	2,542	57	5,198	4,844
Total Expenditure	(2,183)	(1,608)	(575)	(4,366)	(3,515)
Operating Surplus/(Deficit)	**416**	**934**	**(518)**	**832**	**1,329**
Amortisation and depreciation	(655)	(709)	54	(1,310)	(1,417)
Capital Programme – Stock refresh	-	(799)	-		(1,598)
Net Interest	(125)	(154)	29	(250)	(308)
Profit/(Loss) Before Tax	**(364)**	**(728)**	**364**	**(728)**	**(1,994)**

17.4 The YTD position at P6 is a deficit of (£364k) which is £364k favourable to the YTD budget.

17.5 The net operating adverse variance of (£518k) is due to:

- £57k favourable to budget income, primarily derived from £80k favourable to budget miscellaneous incomes and £91k favourable to budget tenant service charges.
- (£575k) higher than budgeted expenditure is primarily due the adverse to budget variance of £141k for repairs expenditure, and £173k higher than budgeted service charges.

17.6 Amortisation and depreciation are £54k favourable to budget due to accounting estimates.

17.7 Net Interest payable is £29k favourable to budget. This is because the 23/43 profiled budget took account of an additional loan of £2.7m to be taken in year. The loan facility has now been adjusted to £1.9m to be drawn down as needed throughout the life of the MOT yard project. The Cabinet Member report for this facility has been approved and it is hoped to have the loan agreement signed and the facility in place in April. We have also been receiving healthy bank interest, totalling to £29k at P6.

Westco

Table 11 – Westco P&L Summary 2023/24

P&L Summary £000's	Actual YTD	Budget YTD	Variance YTD	Year End Forecast	Full Year Budget
Total Income	1.375	1.900	(0.525)	(2.866)	3.800
Total Expenditure	(1.454)	(1.754)	0.300	2.942	(3.508)
Operating Surplus/(Deficit)	(0.080)	0.146	(0.226)	(0.075)	0.292
Net Interest	-	-	-	-	-
Profit/(Loss) Before Tax	**(0.080)**	**0.146**	**(0.226)**	(0.075)	0.292

17.8 In the first half of the financial year, the reported position for WestCo for Quarter 2 is a profit of £3,190 which reduces the Quarter 1 to Quarter 2 total loss to £79,870. This is the first time the organisation has made a profit since February 2023. Despite having achieved a year to date loss, when compared to the same periods in the last financial year (2022/23) this shows an improvement of £83,102.

17.9 After factoring in all the savings proposals and work in the pipeline, it is projecting a year end loss of £75,292.

17.10 The current full year projected forecast for the financial year is a £75,292 loss which includes a forecast for work currently in the pipeline with over a 50% chance of being successful. This forecast is an improvement of £80,820 from the P5 position and includes the savings proposals as agreed by the WestCo board on the 27 September which have been identified as being fully achievable.

18. Summary of Prudential Indicators (PIs)

18.1 The quarterly financial monitor reports will include summary of PIs. The purpose of prudential indicators (PIs) is to provide a reference point or "dashboard" so that senior officers and Members can:

- Easily identify whether approved treasury management policies are being applied correctly in practice and,
- Take corrective action as required

18.2 As the Council's S151 officer, the Executive Director of Finance and Resources has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

18.3 The summary of PIs can be found within Appendix 3.

19. Financial Implications

19.1 The financial implications are set out the main body of the report.

20. Legal Implications

20.1 There are no legal implications arising from this report.

21. Carbon Implications

21.1 There are no direct carbon implications arising from this report.

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

Jake Bacchus (jbacchus@westminster.gov.uk)

Appendix 1 – Reprofiled and Part or Completely Unachievable Savings

ELT	Saving Name	Saving Description	Status	2023/24 Agreed Saving	Mitigating action for unachievable or non-delivery; comment
Children's	Joint Funding Contributions	Joint funding from Health for high-cost placements	Part or Completely Unachievable	650	Currently in mediation with the ICB to agree what can be put forward for joint funding from Health. Current cases ongoing from last year continue to be funded but no further cases are being accepted at this point.
Children's	Education Funding and Efficiencies		Part or Completely Unachievable	50	
Innovation & Change	Parks not lock and staggering park locking times	A combination of not locking selected number of parks and staggering the closing time of another selected number of parks. This will reduce the number of park attendants required to close the parks.	Part or Completely Unachievable	75	A number of parks already have staggered opening hours many of which are linked to local byelaws. There are concerns relating to rough sleeping and anti-social behaviour at unlocked parks that have been raised by some stakeholders. There is some experience of these adverse issues in Parks that are currently left unlocked by the Service. The Service hope to implement changes towards the end of the year subject to stakeholder consultation.

Innovation & Change	Parks & Open Spaces Service Configuration - Review of service model to consider how to deliver by combining contracts with Housing and potential re-let savings	Assume savings can be achieved on combined contracts. Continental contract ends 31/3/23 therefore assumes saving will be deliverable from 2023/24. (Assumed total £100k - Parks £70k, Housing £30k)	Part or Completely Unachievable	70	Housing information requirements differ significantly to Parks as it feeds into the service charge statements for residents living in different estates around the City. Granular detail is required to ensure that if tenants challenge items in their service charge statement (e.g grounds maintenance) they can justify the amount being recovered, the service levels expected by Parks and Housing also differ significantly. Any savings that could have been achieved by Housing would benefit the HRA not the GF. The Continental Contract has now been extended by 3 years so no savings are now achievable.
Finance & Resources	Review of Bi-Borough IT Service	Reviewing the structure of the Bi-Borough IT service, including project work. 02/12 - removed £500k 22/23 following further review.	Part or Completely Unachievable	250	This was highlighted as a pressure in 2023/24 and removed from the budget load

Children's	Delivering Short Breaks Differently	A range of options for Short Breaks service delivery, including a review of the universal (core) and targeted preventative service offer - and the scoping of a proposal (which will require capital investment) to deliver overnight accommodation locally or ‘in-house’ for children with more complex care needs for whom finding suitable packages can be difficult and costly.	Part or Completely Reprofiled	25	Review of Short Breaks service under way

Environment, Climate and Public Protection	Parking Fee Structure Review (EBC)	On-street parking charges are already subject to a diesel surcharge applicable to pre-2015 diesel vehicles and resident permit pricing is differentiated according to engine capacity. This review looks to introduce alternative tiered charging structures based on vehicles' CO2 emissions for these schemes, identifiable upon payment/application via a DVLA look-up. The objective is to improve air quality by encouraging use & ownership of less polluting/discouraging more polluting vehicles. Capital bids have been submitted to cover mobilisation and implementation costs for the new scheme.	Part or Completely Reprofiled	1630	Saving partially reprofiled as the implementation for the Parking Fee Structure Review has been delayed, now expected Feb-24. The effect of this delay is mitigated within the overall Parking position, offset by an increased PCN income.

Appendix 2 – Schools Forecast

1.1 The Bi-Borough Schools' Finance team provides support to 38 maintained schools and nurseries in the borough of Westminster.

1.2 Schools in Westminster face a number of challenges, particularly, primary schools with falling rolls. Based on the October 2022 pupil census, there is a 25.7% surplus capacity across all Westminster primary schools; this is an increase 10.5% in 5 years from 15.0% in 2017.

Dedicated Schools Grant

1.3 Westminster City Council receives an allocation of Dedicated Schools Grant (DSG) from the Education and Skills Funding Agency (ESFA) to fund maintained schools and academies and items of central expenditure. The DSG finances schools, central services, early years and high needs expenditure. In addition to the DSG, mainstream schools will be allocated additional funding through the mainstream schools 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 Department for Education (DfE) will incorporate the MSAG into core budget allocations from 2024/25. The DfE have also announced a teachers pay additional grant (TPAG) to fund 3% of the 2023 teachers pay award. This will be allocated to schools from October 2023 once funding has been received.

1.4 The Schools' Block of the DSG which provides most of the schools' funding is £125.4m for 2023/24, a reduction of £1.0m (0.8%) from 2022/23 due to a reduction in pupil numbers, and the Mainstream Schools Additional Grant (MSAG) brings an additional £4.4m; the total grant allocation therefore comes to £129.8m, an overall increase in funding of £2.386m (2.7%) with per pupil funding increasing by 6.4%. However, this is set against a background of teacher pay awards not being fully funded alongside rising energy and contractual costs.

1.5 The formula to determine the DSG is mainly based on pupil numbers. With Westminster's pupil numbers falling across primary schools, this means that although the rate of funding per pupil has increased, the overall level of funding is decreasing in local primary schools. This is creating a sustainability challenge for several small schools in Westminster.

1.6 The DSG reserve balance was £1.100m as at March 2023. This is the net result of an in-year underspend in 2022/23 of £2.267m which cleared the DSG deficit of £1.167m from prior years.

Schools with Deficit Balances

1.7 There were 15 schools with deficit balances at 31st March 2023 compared to 11 at 31 March 2022. Of the 11 in deficit at 31 March 2022, 1 school delivered an underspend in the year to get back to an overall surplus and another school closed following amalgamation in September 2022. Deficit schools are all RAG rated as red to highlight the urgent need for a sustainable position to be maintained in order to return to a balanced budget position. Per Table 12, collectively, these schools had an aggregate deficit of £2.607m at 31st March 2023. Monthly reporting to the LA is compulsory for schools with recovery plans in place and monitoring reports are being actively pursued.

1.8 Six schools now have a licensed deficit recovery plan in place and revisions to eight plans have been requested following review and analysis. The remaining school, St Stephen's, amalgamated with St Mary Magdalene's from September 2023 and their deficit will not be recovered. This deficit will be chargeable to the Council and not the DSG and this liability is currently forecast to be £411k.

Table 12 – Schools requiring Licensed Deficit Recovery Plans

School Name	Licensed Recovery Plan
All Souls' CE Primary School	Yes
Burdett Coutts CE Primary School	Yes
Our Lady of Dolours	No
Robinsfield Infant School	No
Soho Parish CE Primary School	No
St Barnabas CE Primary School	No
St George's Hanover Square	No
St Luke's CE Primary School	Yes
St Mary Of The Angels Catholic School	Yes
St Matthew's CE Primary School	No
St Saviour's CE Primary School	Yes
St Vincent De Paul Catholic School	Yes
Total Number of Schools in Deficit	**12**
Schools in Surplus at March 2023 and Forecasting a Deficit at March 2024:	
Hampden Gurney	No
George Eliot Primary School	No
Revised Total Number of Schools in Deficit	**14**

Schools at Risks – risk rating and reserves balances

1.9 Schools RAG rated red have no reserves or a deficit balance and require a deficit recovery plan. A financial adviser is supporting schools with deficits in their production of robust deficit recovery plans and is also reviewing those at risk of going into deficit.

1.10 Schools with amber RAG ratings are at risk of future financial difficulty due a low (<£50k) balance and/or their reserves having reduced by prior or in year deficits to the extent that a further reduction of similar magnitude would result in a deficit balance within 2 years and so need to take action to reverse the trend.

1.11 These schools have also been offered support with financial management, ranging from cross-departmental training delivered to staff and governors (involving School Standards and Finance colleagues) to assistance with producing recovery plans and budget monitoring and requests received vary according to the school's needs.

1.12 Green RAG rated schools have enough reserves to cover a future in year deficit equal in value to a current year deficit, should this occur.

Table 13 – RAG Ratings and Balances Summary

RAG Rating	2022/23 Outturn	2022/23 Balance (surplus) / deficit	2023/24 Forecast	2023/24 Forecast Balance (surplus) / deficit
Red	15	(2,607)	14	(2,669)
Amber	7	165	10	353
Green	17	5,924	14	4,891
Total	**39**	**3,482**	**38**	**2,575**

<u>School Forecasts</u>

1.13 Schools' balances at the start of 2023/24 were £3.622m and the forecast year end schools balances total £2.191m. Deficit schools are required to provide monthly updates, with other schools providing Quarterly finance reports.

1.14 At the time of preparing this report, the deadline for returns from non-deficit schools had only just been passed. Finance is following up with the non-compliant schools including escalating to Headteachers. Where returns haven't been received for Quarter 2, figures from Quarter 1 or budget plan forecasts have been used.

Appendix 3 – Prudential Indicators

Table 14 – Prudential Indicators

PI Ref		2023/24 Indicator	2023/24 Forecast
1	Capital expenditure	£438m	£603m
2	Capital Financing Requirement (CFR)	£1,310m	£1,285m
3	Net debt vs CFR	£723m underborrowing	£698m underborrowing
4	Ratio of financing costs to revenue stream	GF 12.24% HRA 34.59%	GF 38.13% HRA 38.99%
5a	Authorised limit for external debt	£1,359m	£1,336m
5b	Operational debt boundary	£636m	£638m
6	Working Capital Balance	£0m	£0m
7	Limit on surplus funds invested for more than 364 days (i.e. non specified investments)	£450m	£0m
8	Maturity structure of borrowing	Upper limit under 12 months: 40% Lower limit 10 years and above: 35%	Upper limit under 12 months: 4% Lower limit 10 years and above: 75%