

Appendix 8 Section 25 report

Report of the Chief Financial Officer

Background

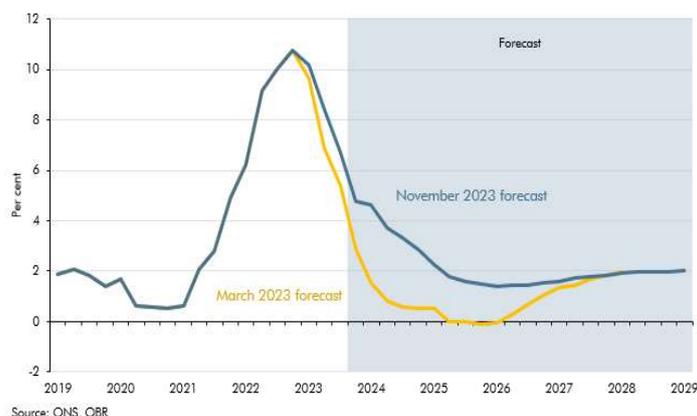
1. The Local Government Act 2003 (Section 25) requires that the chief financial officer (CFO) reports the following matters to members when agreeing its annual budget and precept:
 - the robustness of the estimates made for the purposes of the budget calculations, and
 - the adequacy of the proposed financial reserves
2. The council is required to have due regard to this report when making decisions on the budget. For members the Section 25 statement provides critical context for budgetary discussions. The provision of this information is a legal requirement and ensures that all members have regard to the professional advice provided by the authority's chief financial officer when final budget decisions are made being made. This statement is therefore a critical part of the budget report to which members must pay due regard.

Introduction

3. Westminster City Council's 2024/25 budget has been set against the backdrop of continuing macro-economic uncertainty, particularly in respect of the cost-of-living crisis impacting residents across the City, driving up demand for essential Council services. Coupled with that, inflation remained very high during 2023/24, leading to high pay and contract inflation provision required in 2024/25. While inflation has reduced to 4% in Quarter 4 of 2023/24, that still remains double the Bank of England's 2% target and has impacted pay settlements, contract inflation costs and other costs of service provision. London Living Wage is set to increase by 10% from April 2025.
4. Service demand has also increased. In particular, demand for Temporary Accommodation (TA) which has seen a 19% increase in demand in the 2023 calendar year versus a 5% increase in the previous 12 months (2022). The impact of this increase in the number of TA placements has been exacerbated by a shortage of suitable supply. The volume of available private sector accommodation has remained flat over the course of 2023 (with many landlords choosing to exit the TA market and new supply only just covering this shortfall). The Council is therefore increasingly reliant on expensive nightly-paid accommodation and corporate hotels to meet the increased demand. The direction of travel for TA demand and supply represents the biggest risk to the 2024/25 budget.

5. The Council's medium-term outlook is negative following November's Autumn Statement and accompanying economic forecasts from the Office of Budget Responsibility. Updated forecasts anticipate inflation taking longer to reduce back to the 2% target (Q2 2025 in November 2023 vs Q1 2024 forecast in March 2023), as per Table 1.

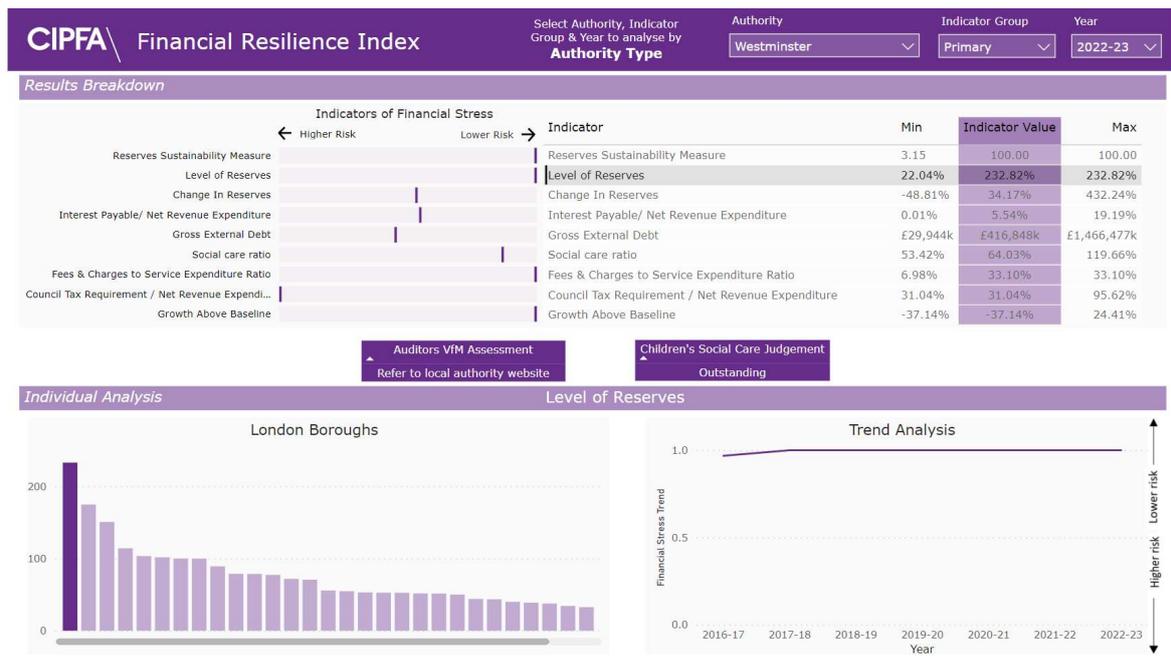
Table 1: CPI forecast March 2023 vs November 2023



6. Inflation costs will therefore add further pressure over the next couple of years. Government grant income has not kept up with the rate of inflation, with Services Grant being significantly reduced and the continuation of Household Support Fund being uncertain. As yet, the government has made no announcement one way or another with regard to Household Support Fund.
7. Despite the economic uncertainty, Westminster City Council is reasonably resilient to short-term volatility. There are external signposts that give those assurances while also giving the council a steer on the bigger risks that needs to be addressed:
 - a. CIPFA resilience index

CIPFA publishes a Financial Resilience Index for all authorities each year. Table 1 below shows how Westminster compares to other London Boroughs as at March 2023. This shows Westminster's total reserves (general fund and earmarked) level as a percentage of its net revenue expenditure (excluding public health and schools). While the level of reserves gives the Council assurance around its short-term resilience, it should be noted that reserves should not be used for long-term support of ongoing budgets as they can very quickly deplete. Instead, they can be used to support investment and smooth out year-to-year volatility.

Table 2: Total reserves level compared to London Boroughs



b. Office for Local Government (OFLOG)

OFLOG was established in 2023 as part of the Department for Levelling Up, Housing and Communities (DLUHC). OFLOG's stated purpose is to "provide authoritative and accessible data and analysis about the performance of local government".

OFLOG's data corroborates CIPFA's position on reserves as a percentage of net budget requirements. Another key OFLOG metric regards Westminster's total debt as a percentage of core spending power.

Table 3: Total debt as percentage of core spending power

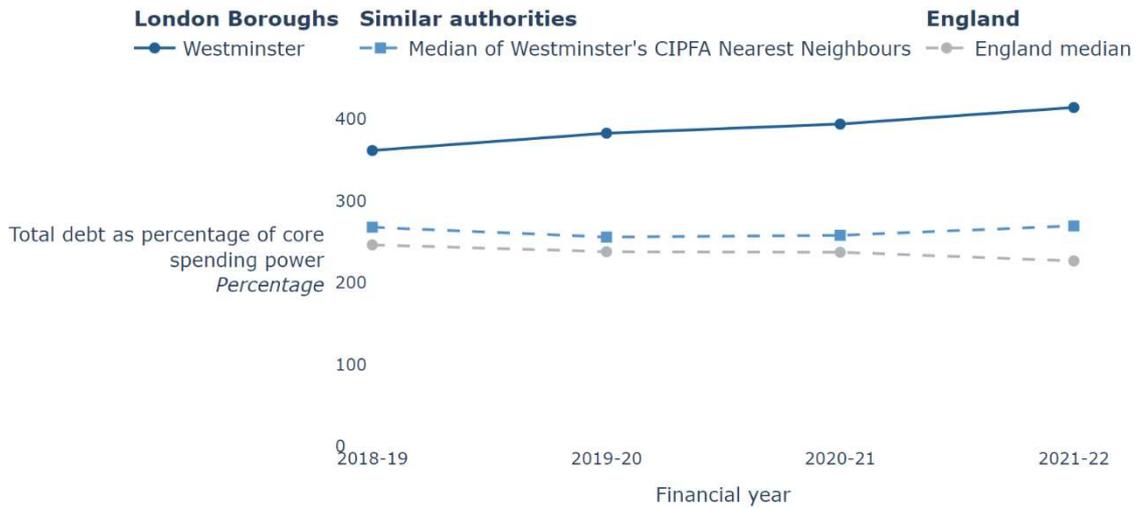


Table 3 shows total debt as consistently higher than the national average and nearest neighbours. This reflects the size of both the Council's General Fund and Housing Revenue Account ambitious capital programmes. This is financed in several ways including setting aside revenue budget over the medium to long-term to support borrowing costs, plus the earmarked reserves including affordable housing fund and community infrastructure levy. In the General Fund an additional £3m is set aside every year to ensure that borrowing costs can be supported in a sustainable way in the future and in the HRA the 30 year business plan is re-modelled annually to ensure that the borrowing costs can be funded.

CIPFA Financial Management Code – Financial Resilience Assessment

8. CIPFA recommends that local authorities undertake a Financial Resilience Assessment (FRA) each year. The FRA builds on the one-year assessments required under section 25 of the Local Government Act 2003 of the robustness of the estimates used in the budget calculations and the adequacy of the proposed levels of financial reserves.
9. The Financial Management Code states that “Effective governance and financial management is focused on ensuring that the authority is able to operate sustainably in the long term. This means that the authority needs to look beyond the limited time horizons of its funding arrangements and to consider the longer-term financing of its operations and activities.”
10. The Council has undertaken a Financial Resilience Assessment for the 2024/25 budget that can be found at Appendix 8. That initial assessment found that the Council’s finances were in good shape and sustainable over the longer term. There are areas for improvement and the FRA recommends that the Council should focus on longer term planning, given current uncertainties and anticipated macro-economic challenges on the horizon.

Governance and control framework

11. The Council reports its financial forecasts and budget monitoring to the Audit and Performance Committee on a quarterly basis. These are reported within the wider control environment which include:
 - explicit mention of roles and responsibilities of budget holders within the Council’s financial regulations and schemes of delegation
 - regular monitoring meetings with budget holders, paying particular attention to high risk areas
 - regular and accurate reporting to Members and senior officers (both in terms of budget monitoring and budget proposals) alongside service performance monitoring
 - an effective internal audit function assessing controls and processes.
12. These arrangements are considered robust. The quarterly budget monitoring report acts as a critical signpost to any estimated pressures and/or savings for the following year’s budget, MTFP and capital programme. There are regular milestones meetings where assumptions are updated on the basis of new information being made available (e.g. Autumn Statement, Provisional Settlement).
13. The process for external scrutiny of the budget process changed this year as Budget Scrutiny Task Group (BSTG) Members were engaged earlier in the year, with an additional session added. Each directorate underwent scrutiny

on their proposals for savings, pressures and investments in November, followed by a concluding session in January. The savings proposals put forward were accompanied by Equality Impact Assessments.

14. The Council set up a Shareholder Committee in 2021 to support the governance and accountability of its shareholder responsibilities for the companies and institutions it has a legal interest in. This brings together business planning, performance monitoring, risk management and year end reporting as well as other shareholder responsibilities.
15. The Council received an unqualified opinion on both the accounts for the Council and the Pension Fund for 2022/23. Against the backdrop of a challenging local government audit environment, Westminster is one of the few authorities across England to have completed its 2022/23 audit (and just the second authority in London). In respect of the separate auditor judgement on securing value for money, the 2022/23 report will be taken to Audit and Performance Committee in February with an expectation of receiving a positive conclusion.
16. The Council's governance arrangements require a statement at the year-end from the 'corporate lead officer' for various key control areas. The Chief Financial Officer has responsibility for ensuring that an effective system of internal financial control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. Areas for improvement are included in the Annual Governance Statement and monitored in year via the Audit & Governance Committee.

Statement of the Section 151 Officer, Executive Director of Finance and Resources

17. Under Section 25 of the Local Government Act 2003, I am required to report to Council my view of the adequacy of the Council's reserves and the robustness of the estimates underpinning the budget.
18. The Council maintains two categories of reserves, the General Fund balance which is an unallocated reserve; and earmarked reserves. The General Fund balance stands at £60.4m as at 31 March 2023. This represents approximately 30% of the Council's £194m net budget requirement. The general principle is that 10% would be a recommended minimum. A higher general fund balance at 30% recognises Westminster's exposure to large fluctuations economic activity that affects fees and charges income as well as providing additional cover for the current volatility in interest rates, temporary accommodation, and other high demand services.
19. Earmarked reserves stand at £328m which puts Westminster in the upper quartile across England for reserves levels as a percentage of core spending

power. Some of these reserves are legally ring-fenced for specific spend, some are retained to smooth annual budgetary fluctuations and other specific risks, while others support the Council's investment ambitions over the medium term.

20. It is my view that reserves should be retained for the purpose outlined above and not used to support general ongoing expenditure from one year to the next, as in doing so, can cause quick depletion of reserve levels, especially in the context of the medium-term financial gap that Westminster faces. I am satisfied that this is the case and therefore satisfied that reserves are adequate for both 2024/25 budget and over the medium-term.
21. In respect of the robustness of estimates, the 2024/25 budget uses the key macro-economic metrics to estimate inflation for both pay and non-pay costs. This aligns with November's Autumn Statement and forecasts from the Office of Budget Responsibility. Sales, fees and charges income and demographic pressures are reviewed regularly throughout the year as part of the ongoing, iterative, budget setting cycle that occurs in the preceding year and this informs the budget forecasts looking forward.
22. There is considerable concern over temporary accommodation and the significant increase in cost during 2023/24 and into 2024/25. Actions are in place to mitigate some of the impact, however much of the cause is market based over which the Council has minimal influence. The 2025/26 budget gap is very challenging – caused mostly by the need to set aside budget for temporary accommodation support, forecast reduction in interest earnings (as rates fall) and potential impacts of government funding reductions. Financial planning for the medium term will therefore be challenging, but we have in place the governance and mechanisms to meet that challenge as well as healthy reserves to minimise impact on services to residents and our communities.
23. In summary, I conclude that reserves levels are adequate and that the estimates used to set the 2024/25 budget are robust.