



# City of Westminster Cabinet Report

**Date:** 20 February 2012

**Status:** For General Release

**Title:** Budget and Council Tax Report 2012/13, 2013/14

**Wards Affected:** All

**Financial Summary:** This report sets out the Council's financial framework for the next two financial years

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## **1 Executive Summary**

- 1.1 This report represents the final stage the City Council's budget and business planning process for 2012/13 and 2013/14, following joint Strategic Executive Board and Cabinet Member scrutiny.
- 1.2 In last year's Council Tax Report, Westminster set out a radical programme of service changes and efficiencies to address its underlying financial challenges and the impact of government funding reductions.
- 1.3 Twelve months later, the Council is well on track to deliver its two year change programme, exceeding its savings targets. Risks have been managed and mitigated. Costs, including redundancy/change costs, have been contained at the lower end of 2011 estimates. Reserves are higher than projected and the Council anticipates strengthening its Reserves position through the next two financial years.

- 1.4 In 2012/13 HM Government formula funding declines by £14.2M (7.6%) on 2011/12. The Revenue budgets allocated for expenditure in 2012/13 total £223M. The Council is publishing a balanced budget that makes provision for a modest increase in General Reserves. The extent of General Reserves build will be dependent on the extent to which risks and variations in estimates can be contained within baseline expenditure. Capital Expenditure for the year will be £28M.
- 1.5 This Budget and Council Tax Report focuses on the 2012/13 and 2013/14 financial years. In this timeframe, Westminster expects to deliver its existing change plans, set a balanced budget and rebuild Reserves. However, we recognise that government funding for local authorities will see renewed pressure in 2014/15 and 2015/16.
- 1.6 In addition to general funding reductions, there is considerable uncertainty around some major policy initiatives driven by central government that may have significant impacts on the Council's finances. Two particular examples are the Housing reforms and the proposals for Business Rates retention. With the 2011 change programme substantially complete, the Council will be considering the next stages of its strategic plans for the medium term during 2012.
- 1.7 The Council's policy is to meet the cost of capital expenditure through grants, third party funding and its own capital receipts. Over the five year period from 2010/11 to 2014/15, the Council anticipates capital receipts of £172M and expenditure of £152M. For preliminary planning purposes we have provisionally extended the capital programme into 2016/17 which is subject to Member and Officer consideration and approval.
- 1.8 The Council's financial positions is considered alongside its strategic plan. Two major elements of Westminster's strategic approach are:
- Its Tri-Borough arrangements with the London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea; and
  - The continuing dialogue with stakeholders on the Council's policies and priorities.
- 1.9 In June 2011 Westminster published "Bold Ideas for Challenging Times". This set out a programme of joint working with the Royal Borough of Kensington & Chelsea and the London Borough of Hammersmith and Fulham, which aims to redesign service delivery, seek efficiencies, reduce corporate overheads and deliver better value for customers and Council Tax payers. We are progressing well with this initiative and expect to see service and cost benefits over the medium-term.

- 1.10 On 10th December 2011, the City Council published for public consultation “A Civic Contract for Westminster”. This Green Paper offers a blueprint for the future direction of public services in Westminster, setting out the Council’s future vision for the management of the City. The Civic Contract underlines and reaffirms the Council’s commitment to keeping the streets clean and safe, protecting the most vulnerable, supporting family life, tackling youth violence and gangs whilst supporting economic growth and reducing unemployment. Consultation on this paper closes on 10th February 2012. The analysis and reporting is likely to be finalised before the end of February and the second stage of consultations are planned for from March 2012 onwards.
- 1.11 Throughout the process of setting the Budget the City Council has been mindful of the impact of service changes or reductions on residents and service users and an Equalities Impact Assessment is included in Annex D.
- 1.12 On 3 October the Chancellor of the Exchequer announced funding to allow local authorities to freeze Council Tax for 2012/13. The announcement indicated that the government had set aside an extra £805M to help freeze Council Tax bills. This scheme would be available to all local authorities that decided to freeze or reduce their Council Tax in 2012/13. Adoption of a freeze results in additional funding for Westminster of £1.24M, the equivalent of increasing Council Tax by 2.5%.
- 1.13 Unlike the 2011/12 Council Tax grant, central government will not cover the financial shortfall of the 2012/13 freeze in future years. Over a three year period, a 2012/13 freeze with two subsequent years of 2.5% Council Tax increases would generate £3.9M less in funding for the City Council rather than a 2.5% actual rise in all three years. Against the background of the medium term funding pressures facing the Council, the consequences of a further year of no Council Tax increase should be noted.
- 1.14 For the 2012/13 Budget, this report recommends that the Council adopt a Council Tax freeze for 2012/13. It will therefore receive £1.24M of additional central government funding for 2012/13 only.

## **2 Recommendations**

- 2.1 That Cabinet approve the Budget and recommend to Council the approval of the 2012/13 Budget, as set out in this report, and recommend to the Council the Tax levels as set out in the Council Tax resolution at Annex C.
- 2.2 That Cabinet approve the Capital expenditure programme as set out in Schedule 11. This programme is now subject to full review on a quarterly basis by Members and Officers.
- 2.3 That the level and use of Earmarked Reserves in Schedule 6 be approved.

- 2.4 That the Westminster local element for Band D properties be confirmed at the same level as 2011/12 (i.e. £377.80) in 2012/13, with subsequent increases to be reviewed each year in the light of emerging risks and opportunities.
- 2.5 That the Council Tax for the City of Westminster excluding the Montpelier Square area, and the City of Westminster Montpelier Square area for the year ending 31 March 2011, be as specified in the Council Tax Resolution in Annex C and that the Council Tax be levied accordingly and that officers be authorised to alter the Council Tax resolution as necessary following the announcement of the (Greater London Authority) GLA precept, drawing specific attention to any change.
- 2.6 That Cabinet delegate to the Strategic Director of Housing, Regeneration and Worklessness the responsibility for setting fees and charges for Temporary accommodation and Bed and Breakfast, including the storage of possessions.
- 2.7 That the responses to the views of the Budget and Performance Task Group set out in Annex B be noted and incorporated into the Cabinet's report to Council in accordance with the Budget and Policy Framework Procedure Rules in the Constitution.

### **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 of the Council Tax for the forthcoming financial year. There is a statutory requirement to submit budget returns to the Department of Communities and Local Government (CLG) and approval of the revenue estimates constitutes authority for the Strategic Executive Board to incur expenditure in accordance with approved policies.

### **4. The Council's Strategic Plan**

#### **4.1 Living City Programme – Our achievements**

- 4.1.1 The 2010 Comprehensive Spending Review set out the Government's budget reduction programme for local authority funding. The impact to the Council was a cut of 28% to core funding in real terms to be delivered over four years by 2014/15.

- 4.1.2 The Council adopted a robust method for prioritising resources when setting the budget for 2011/12. All services were subject to a Fundamental Service Review to support decision-making. Profiles for each area of the business were developed to assess current levels of expenditure, demand and current performance to establish a comprehensive suite of options for each Service Area to deliver a balanced budget position. After thorough challenge, a programme was set to deliver £61M worth of savings over 2011/12 and £84M over two years.
- 4.1.3 The Council's Living City programme was launched in 2009 and has seen major improvements in the public realm and record school attainment. Building on evidenced strong delivery of core services, illustrated recently by the assessment of our Children's Services as excellent, the Council now faces new challenges.
- 4.1.4 New financial pressures, rising public expectation and a new understanding of what makes our City work means the way the Council delivers services needs to adapt. As we approach the end of the Living City programme and move forward with consultation to develop a Civic Contract for Westminster, the Council has continued to drive efficiency and improvements to ensure it meets the demands of the residents, business and visitors that we serve.
- 4.1.5 Some of the successes and improvements made over the past year are set out below:
- With our partners the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea, the Council has set the tone nationally for how local authorities can work more efficiently and effectively together. We are bringing our Adult and Health Services, Children's and Education Services and Libraries Services together under single Tri-Borough directorship. We are making good progress in bringing together many of our corporate services activities, in part through the Managed Services Programme.
  - Our Family Recovery Programme was widely praised for the innovative approach it takes to improving the lives of families with complex problems whilst reducing unnecessary burdens and costs to the Council and other services.
  - Over 60 families have benefitted over 2011/12 from this inclusive approach. Based on an evaluation of the first 50 families who entered the programme, the total cost avoided to taxpayers that would otherwise be spent, is £2.6M. The model has been endorsed by Government as the future of service provision with the Prime Minister recently announcing a national programme to target families with similar problems around the UK.

- The Council has been successful in helping more residents in receipt of social care packages to remain in their own homes and take control of how their care is delivered. In 2011/12 over half of these service users are in receipt of a personalised budget and the Council has assessed all users for eligibility to ensure that those in most need are adequately supported.
- Improving the life chances for young people of Westminster has always been one of the Council's top priorities. In the latest annual Children's Services assessment, Ofsted inspectors have elevated Westminster's ranking from 'performs well' to 'performs excellently'. They particularly praised progress in improving the performance of local schools, as well as acknowledging a strong performance in all areas of Children's Services.
- Having risen from close to the bottom of the list just five years ago, Westminster's pupils' average achievement of five or more GCSEs now stands at 63.1%, which is 4.2% higher than the national average. Hampden Gurney Primary School was named State Primary School of the Year 2011, the only London school to have won this accolade since the awards started in 2001. The Council has overseen the development of the new site for the College Park School that offers a world class environment for children with complex learning needs. Westminster City Council officially launched the new-look Queen Elizabeth II Jubilee School, in Maida Vale.
- Preventing young people becoming involved in crime and gang-related activity has been a priority over last year and will continue as such. The Your Choice programme was launched in 2011, in which the Council is investing c£0.9M over two years, will work towards stopping young people from getting involved in gangs in the first place as well as providing gang exit programmes.
- The Council has also invested in making sure young people have diversions to keep them occupied. In 2010/11 Westminster's parks were cited as the cleanest, safest and best maintained in London. Our parks were visited by over 30 million people and were awarded a record 24 Green Flags. The Council has also supported the development and launch of the world's largest Parkour dedicated facility, L.E.A.P (London Experience of Art du Deplacement & Parkour), at Westminster Academy.

- The Council has continued to invest in the infrastructure that helps Westminster to play its part in showcasing London as one of the leading international cities. 2011/12 has seen a £14M renewal of Leicester Square Piccadilly and Pall Mall, opening up the important gateway to St James's Park and Horse Guards Parade. Traffic is now flowing both ways around Piccadilly Circus helping to reduce congestion and the environment is now much more pedestrian-friendly. Westminster has invested in the provision of on-street electric vehicle recharging infrastructure to aid the uptake of low emission vehicle usage in the city in order to reduce air pollution. There are now over 35 on-street electric vehicle recharging bays in Westminster, currently the largest on-street network in London.
- The Council has also continued to help the local economy to flourish in the city. As the second year of the Transition Fund Work Programme comes to an end over 3,000 people have enrolled in this scheme to help people find work and 311 of these have been helped into sustainable employment. 2010/11 also saw the launch of the Community Map that enables voluntary and community groups to 'plot' their volunteering opportunities on an online map of Westminster, supporting the development of a thriving civic community in Westminster.
- Council Tax has now been frozen for the past five years since 2007/08.

## **4.2 The Civic Contract**

- 4.2.1 On 10<sup>th</sup> December 2011, Westminster City Council published for public consultation 'A Civic Contract for Westminster'. This Green Paper offers a blueprint for the future direction of public services in Westminster, setting out the Council's future vision for the management of the City.
- 4.2.2 The Civic Contract underlines and reaffirms the Council's commitment to keeping the streets clean and safe, protecting the most vulnerable, supporting family life, tackling youth violence and gangs whilst at the same time supporting economic growth and reducing unemployment.
- 4.2.3 The Civic Contact also takes into account those challenges the Council faces such as rising expectations and demands alongside diminishing budgets whilst taking on board the newly acquired powers, freedoms and responsibilities within the Localism Act.
- 4.2.4 At its heart, lies the idea of a Civic Contract between the state and those residents, communities and businesses located in the City. The contract sets out what services the Council will deliver and in return what behaviours and responsibilities come with living or working in the City.

4.2.5 The consultation outlines six ways to progress this new approach and ideas of what this could mean in practice.

- **Targeted localised services.** Services should be targeted at those who need them most. It is no longer financially feasible to provide a range of universal services delivered to a minimum standard. Rather services will be concentrated on those people who need them most, for example problem families that require intervention from a range of services.
- **Evidence based interventions.** We need to base our interventions on evidence of what works, while leaving room for innovation in our approaches. We simply cannot gamble taxpayer's money on interventions that are not supported by evidence.
- **Engaging the best provider.** Providing services ourselves is no longer the core role of the Council. Over recent years we have shifted to the commissioning of services, by tendering for the best provider of a service in the open market. It is time to take this further by proactively diversifying the market to engage new providers who haven't traditionally delivered public sector services including social enterprises and mutuals. Where we can, we want to make people the commissioner of services, through the greater use of personal budgets. They can then choose to spend their budgets on the services they actually want to receive.
- **Proportionality.** Our interventions need to be proportionate to their end goal. We will be more stringent on asking ourselves whether the level of our response is actually needed.
- **More effective partnership working.** We don't want to do things in silos. We acknowledge that we need to get better at working with our partners – the local health services, the police, business and the voluntary sector.
- For example, we believe that businesses have a major role in helping to manage the local environment potentially getting involved in delivering services that were the traditional preserve of the Council. In those areas where we have less responsibility, we think we can add value by being an '**honest broker**' – that is working with other providers to guarantee the quality of all public services across the City.
- **Combining services.** We will combine services in specific areas to tackle common problems, improve lives and make public money go further. The Tri-Borough programme is a perfect example of this and is already combining a range of services.

### **4.3 Sharing services: Tri-Borough Working**

- 4.3.1 In October 2010 we first set out our vision of three sovereign authorities combining in specific areas to provide great local services through shared resolve tailored to the needs of our neighbourhoods. In the new era of localist government, we intended to strengthen our individual reputations for quality, innovation and leadership and offer a successful new model of working to the rest of local government.
- 4.3.2 In June 2011, the Tri-Borough plans were published in a programme of joint working with Royal Borough of Kensington & Chelsea and the London Borough of Hammersmith and Fulham that aim to redesign service delivery, seek efficiencies, reduce corporate overheads and deliver better value for customers and Council Tax payers.
- 4.3.3 We are progressing well with this initiative and expect to see real service and cost benefits over the medium term.
- 4.3.4 Limited financial gains were expected in the early years of Tri-Borough working. In line with this, the 2012/13 and 2013/14 Budgets for Westminster include relatively modest net savings attributable to Tri-Borough initiatives. Considerable work is currently underway to re-plan service delivery, combine support activities and streamline operational delivery. These are planned to deliver financial benefits in 2014/15 and 2015/16.
- 4.3.5 We are on-track to deliver savings of £33.4M across the three Boroughs by 2014/15.

### **4.4 What we have achieved so far**

- 4.4.1 Significant progress has been made since June 2011. We have combined Children's services, Adult Social Care and Library Services across the three Boroughs, reducing the number of middle and senior managers by 50% and cutting overheads attached to frontline services by 50%.
- 4.4.2 We have created a shared youth service, making it faster and simpler for young people and their families to get back on their feet.
- 4.4.3 We have expanded our flagship Family Recovery programme across the other two Boroughs, extending our innovative approach to helping families with multiple problems.
- 4.4.4 We launched the first Tri-Borough 'Summer in the City' campaign that offered over 200 summer activities to families across the three authorities. Polling showed that residents welcomed this initiative and think more highly of the Councils because they have undertaken their joint work.
- 4.4.5 Crucially, we have achieved all this while also retaining each Council's sovereignty to shape services to local priorities.

#### **4.5 What we have left to do**

- 4.5.1 We are ambitious to build on our initial success and will continue to create a blueprint for the rest of local government to follow.
- 4.5.2 We have published mandates for the provision of shared services in each borough, safeguarding how they will be tailored to local priorities.
- 4.5.3 By the summer we expect to launch a single library card for every resident across Westminster, Hammersmith & Fulham and Kensington & Chelsea.
- 4.5.4 We have launched the Tri-Borough Managed Services Programme, a joint procurement process that will create a shared platform for business support for: HR, Finance, Procurement, Business Intelligence, and Property Management.
- 4.5.6 We will start the process of moving Public Health back into local authority control.
- 4.5.7 We will work closer to improve how we tackle gang crime and serious youth violence.
- 4.5.8 We will develop a detailed plan for integrating social care with hospital care, laying the groundwork for helping people to recover faster and stay independent for longer.

#### **4.6 Commissioning**

- 4.6.1 The Council is continuing its approach of joint intelligent commissioning. This means that the Council will meet citizens' needs by identifying demand and, through the market, acquiring the best services. By using an intelligent approach to procurement the Council can choose providers that will deliver the quality services at the best possible price.
- 4.6.2 In the new financial year the Council will begin commissioning a number of services jointly across the Tri-Borough area with Royal Borough of Kensington & Chelsea and London Borough of Hammersmith & Fulham. This will increase efficiency from the economies of scale that will be achieved. Joint commissioning teams are being finalised and will be in place to enable effective implementation from April 2012.

#### **4.7 How we will continue to stretch ambition and meet future challenges**

- 4.7.1 Westminster is keen to take on new responsibilities in order to get more people into work, deter crime and join up health and welfare. We believe that we can use our combined approach to go further and deliver more jobs and investment for our communities.

- 4.7.2 We have been awarded pilot status as one of four national whole-place Community Budgets. We will use this opportunity to test how we can work in new ways to drive growth, reduce dependency, and galvanise frontline services against the financial challenges we will continue to face.
- 4.7.3 We will use our shared reputation for quality, innovation and leadership to make the case for reform of the business rates system that incentivises growth in high yield areas.

#### **4.8 Driving growth and devolving power to communities**

- 4.8.1 Over the next year we will continue to explore how we can use freedoms in the Localism Act to devolve responsibility to communities and drive local economic growth.
- 4.8.2 We will take forward the results of the Community Governance Review and work with our partners to develop proposals for how the Council can devolve more powers to communities to govern neighbourhoods and run local services. We will also set up a West End Commission to consider the particular challenges facing this unique part of Westminster to drive, sustain and support growth in one of the most important economic areas in the country.

### **5. Financial Strategy**

- 5.1 In last year's Council Tax Report, Westminster set out a radical programme of service changes and efficiency programmes to address its underlying financial challenges and the impact of government funding reductions. Twelve months later, the Council is well on track to deliver its two year change programme, exceeding its savings targets. Risks have been managed and mitigated. Costs, including redundancy/change costs, have been contained at the lower end of 2011 estimates. Reserves are higher than projected and the Council anticipates strengthening this position through the next two financial years.
- 5.2 In 2012/13 HM Government funding declines by £14.2M (7.6%) on 2011/12. The Revenue budgets allocated for expenditure in 2012/13 total £223M. The Council is publishing a balanced budget that makes provision for a modest increase in Reserves. The extent of Reserves build will be dependent on the extent to which risks and variations in estimates can be contained within baseline expenditure. Capital Expenditure for the year will be £28M.
- 5.3 This Budget and Council Tax Report focuses on the 2012/13 and 2013/14 financial years. In this timeframe, Westminster expects to deliver its existing change plans, set a balanced budget and rebuild Reserves. However, we recognise that government funding for local authorities will see renewed pressure in 2014/15 and 2015/16.

- 5.4 In addition, there is considerable uncertainty around some major policy initiatives driven by central government that may have significant impacts on the Council's finances. Two particular examples are the Housing reforms and the proposals for Business Rates retention. With the 2011 changes substantially complete, the Council will be considering the next stages of its strategic plans for the medium term during 2012. The most significant policy and legislative changes are reviewed in Section 10.
- 5.5 On 3 October the Chancellor of the Exchequer announced funding to allow local authorities to freeze Council Tax for 2012/13. The announcement indicated that the government had set aside an extra £805M to help freeze Council Tax bills. This scheme would be available to all local authorities that decided to freeze or reduce their Council Tax in 2012/13. Adoption of a freeze results in additional funding for Westminster of £1.24M, the equivalent of increasing Council Tax by 2.5%.
- 5.6 Unlike the 2011/12 Council Tax grant, central government will not cover the financial shortfall of the 2012/13 freeze in future years. Over a three year period, a 2012/13 freeze with two subsequent years of 2.5% Council Tax increases would generate £3.9M less in funding for the City Council rather than a 2.5% actual rise in all three years. Against the background of the medium term funding pressures facing the Council, the consequences of a further year of no Council Tax increase should be noted.
- 5.7 For the 2012/13 Budget, this report recommends that the Council adopt a Council Tax freeze for 2012/13. It will therefore receive £1.24M of additional central government funding for 2012/13 only.

## **6. Financial Performance 2011/12**

### **6.1 Revenue Expenditure**

- 6.1.1 In the 2011 Council Tax Report, Westminster set out a comprehensive change programme to drive efficiencies and address the impact of government funding reductions. At that time, the Council was projecting this to be £20M (11%) in 2011/12.
- 6.1.2 The financial strategy set out by the Council in that Report was based on:
- a) A two year savings programme of some £84M, £61M to be delivered in 2011/12 and £23M in 2012/13. This savings target was partially offset by cost increases to reflect known additional funding requirements, giving an actual cost reduction of £46M over the two year period.
  - b) These savings were to be delivered by making service changes, cost efficiencies, and improving the management of activities across the Council. These were set out in Schedule 3a of the 2011 Council Tax Report: an update is provided in Section 6.4 below and Schedule 5.

- c) The scale of the planned Savings Programme would give rise to redundancy and other change costs. Depending on precise implementation plans, redundancy costs were estimated in the range of £12M-£16M and change costs of £4M to be met over a two year period.
- d) In addition, detailed financial planning and budget preparation recognised that implementation of such significant change programmes and associated savings within a relatively short time period inevitably gave rise to a number of risks and was based on estimates which might be subject to variation. These were fully documented in the 2011 Council Tax Report.
- e) Reserves have been eroded from £70M to £15.6M from 2007/08 to 2010/11 by the impact of economic and commercial changes. In February 2011, the Council anticipated Closing Reserves for 31 March 2011 of c£13M, with significant risks around this outcome arising in particular from pending legal action, Icelandic bank write downs and general operating risks.
- f) The scale of the possible redundancy/change costs, the level of risk, uncertainty over budget estimates combined with a reduced Reserves position required the Council to seek additional funding from CLG to support its ability to meet the estimated costs of change.

6.1.3 Twelve months later, the Council has made considerable progress in the management of its finances. It is on track to deliver the two year change programme, exceeding its savings targets. Risks have been managed and mitigated. Costs, including redundancy/change costs, have generally being contained to the lower end of estimates. Change funding from CLG has been secured. The impact on users of Council's services has been minimised.

6.1.4 The Council has also benefitted from the receipt of additional income streams in 2011/12 including the New Homes Bonus and the Government funding for a Council Tax freeze.

6.1.5 Overall, Westminster will exceed the balanced budget target for 2011/12, achieving an underspend of some c£7M for the full year. All Service Areas and activities have contributed to this underspend.

6.1.6 This significant improvement in the Council's financial position is reflected in General Reserves. The Opening Reserves for 2011/12 were £15.6M. The Council anticipates Closing Reserves in the range of £17M-£19M for 31 March 2012.

6.1.7 Successful delivery of the Council's plans has been based on close working between Member and Officers, underpinned by strong programme management, delivery assurance processes to monitor change and a further strengthening of financial management processes across the Council. Significant changes have been made to the structure and organisation of the Finance and Change Management functions to support the Council's strategic direction.

## **6.2 2011/12 Capital Expenditure**

6.2.1 For 2011/12 net Capital Expenditure is projected at £40M, which is in line with the Budget.

6.2.2 The Council's policy is to meet the cost of capital expenditure through grants, third party funding and its own capital receipts. Over the five year period from 2010/11 to 2014/15, the Council anticipates capital receipts of £172M and expenditure of £152M.

6.2.3 The £152M budget for Service Areas is made up of a significant number of schemes of which the largest by value are:

- Carriageway Programmed Maintenance - £12M
- Footway Programmed Maintenance - £9M
- Schools Summer Programme - £9M
- BSF ICT - £8M
- Leicester Square Phase 1 - £6M
- Lighting Improvements - £6M
- Capitalisation of Officer time - £6M
- Church Street Regeneration - £2M
- Piccadilly 2 Way - £3M
- Council House/Westminster Adult Education Service - £2.5M

6.2.4 A Capital Review process has been introduced. The process of quarterly meetings between Members and Officers considers the strategic priorities for capital, alignment with Revenue expenditure and approval of individual capital schemes within agreed budgets and planning totals. This mechanism has been used to reduce the planned 5 year Capital Programme by £20M to £152M, allowing scope for development of the capital requirements of the forward strategy.

6.2.5 We have provisionally extended the capital programme over six years into 2016/17 which is reflected in Schedule 11. This however is for planning purposes only at this stage and needs Member and Officer consideration and approval.

### **6.3 Revenue Budget 2012/13**

6.3.1 For next financial year, the Council has set a balanced budget. Within this there is provision for a modest increase in Reserves. The extent of Reserves build will be dependent on our ability to contain costs pressures, particularly inflation, and to mitigate the impact of increases in demand, new requirements, and unplanned events that will put upward pressure on baseline spend.

6.3.2 The budget outline can be summarised as:

- a) Consistent with the two year strategic plan, the funding envelopes set last year have determined the budget baselines for Service Areas. A small number of changes have been made by re-prioritising spend. The main ones are: increased funding of Adult Social Care to meet the costs of concessionary fares and increased redundancy/change funding. These have been accommodated by improved performance of the Council's financing activities and a number of smaller changes.
- b) Although Parking policy is not influenced by financial considerations, in setting budgets and financial planning the Council needs to make an estimate of the commercial income derived from Parking. As Parking income pays for a range of transport related activities defined within existing legislation, any decline in Parking income may require other sources of funding to be diverted from other services to meet these needs. For 2012/13 The Council has reduced its estimate of net Parking income from £52.3M to £50.3M. This reduces 2012/13 funding by £2M, the equivalent of a 4% increase in Council Tax.
- c) The original 2012/13 Budget showed a £3.2M surplus. In addition, the Council will benefit from New Homes Bonus funding, funding from the 2012/13 Council Tax freeze and income derived from the Council's recently announced Wi-Fi concession arrangements with O2.
- d) This increased income has enabled the Council to provide an additional £2M funding for street cleansing activities compared to the assumptions set last year. The most appropriate targeting of this supplementary funding is under consideration within City Management.

6.3.3 The detail of the Revenue Budgets and the net expenditure limits by Portfolio are set out in Schedule 4 and by income and expenditure changes in Schedules 2 and 3. The service changes/savings programmes to meet these limits in Schedule 5. The cost of levies and the GLA precept are addressed in Schedule 7. Integration of these financial changes with the "Living City" programme and the Civic Contract is addressed above.

6.3.4 Savings originally identified in Schedule 3a of last year's Council Tax Report are still targeted to be delivered. There have however been movements in Cabinet Member and SEB portfolios as a result of organisational realignments which have resulted in some changes to savings proposals.

- 6.3.5 Westminster identified a comprehensive and very ambitious savings programme of £84M to be delivered over two years from 2011/12 to 2012/13. All Service Areas made good progress in 2011/12, meeting their in-year targets and setting a strong foundation for delivery in 2012/13. Service Area net savings projections are given in Schedule 5.
- 6.3.6 Reflecting the criticality of savings delivery to the Council's financial position, a Delivery Assurance process was established in 2011/12 as part of core financial management to drive and monitor the savings programme over two years. This improved the quality of planning, transparency of progress towards targets and risk management. The process included a rigorous mechanism to challenge the delivery of plans and savings with Executive Board members on a rolling monthly basis through discussions chaired by the Chief Executive or Chief Operating Officer.
- 6.3.7 This process has supported strong performance across all areas of the Council. As at Period 9 (December 2011) around 95% of the 2011/12 £61M savings programme has been delivered with the remaining 5% on track to be delivered by the end of the financial year.
- 6.3.8 The savings programme for 2012/13 required £25M of reductions to Service Area baselines, consisting of £23M of general savings and c£2M of Area Based Grants (ABG) related savings. As part of 2012/13 budget preparation, the City Management baseline has been increased by £2M to alleviate some of the planned savings requirements. The savings programme for 2012/13 is now £23M which we are on track to deliver.

## **7. 2012/13 Budget Risk and Robustness**

- 7.1 In preparing the budget, managers have been expected to adopt a systematic and thorough assessment of risks.
- 7.2 As the Council's funding does not allow for any cost inflation, the level of inflationary increases on external spend is a major risk. In addition, each Service Area is subject to a range of cost or income risks or pressures. This may arise from: increased demand, operational/legislative changes, shifts in service patterns and policy initiatives from central government.
- 7.3 No allowance has been made within the 2012/13 Budget for any increases in employee costs. This would mean a four year freeze on pay within the Council.
- 7.4 Through the process of risk assessment, risks have been assessed as "Red and "Amber". In all cases, it is expected that the primary responsibility for managing and mitigating risks rests with service managers. However, recognising that "Red" risks are likely to arise and may be beyond the capacity of the Service Area to mitigate, some limited provision has been made to meet these costs. This provision will be held corporately.

- 7.5 Any surplus generated in 2012/13 above budget baselines will be used to increase Closing Reserves. We anticipate that the Council will be able to increase Reserves by £3M-£5M depending on the extent of unavoidable additional cost pressures that arise.
- 7.6 The Council has made significant strides forward in the in the delivery of the £84M two year change programme with risks mitigated, costs contained and a balanced budget set for 2012/13. On this basis the 2012/13 budget is considered to be robust.
- 7.7 The robustness of the Budget is also underpinned by the progress that has been made in strengthening both financial management processes and the Finance function in the past year. A number of "best practice" arrangements have been adopted including: a reorganisation of the Finance function to a shared service/business partner model through "Finance Foundations," enhanced financial controls, more extensive financial reporting, various systems and process enhancements.
- 7.8 In parallel with these changes we have embarked on significant training and upskilling of Finance staff to build greater commercial and technical awareness. We have also invested significant time in training and educating budget holders in building their understanding of financial management and their roles and responsibilities in the new regime. This has not only delivered significant efficiencies but ensured we are much more customer focussed as a support function.

## **8. Revenue Budget 2013/14**

- 8.1 Indicative budgets for 2013/14 are published in this Council Tax Report. These budgets assume a roll forward of the 2012/13 base for each area of the Council's activities, with the same process of risk assessment applied to those funding envelopes.
- 8.2 With rising inflation and an evolving policy context, the extent of "Red" and "Amber" risks against static financial envelopes rises significantly. "Red" risks increase four-fold year-on year and "Amber" risks increase by £2M.
- 8.3 With the benefit of New Homes Bonus, Metro Wireless (O2 concession arrangement) and other initiatives now being put in place to drive the next phase of efficiencies, the Council anticipates setting a balanced budget for 2013/14. This will allow little, if any, additional transfers to Reserves, with costs fully matching income with an allowance for risks.
- 8.4 A full review of the Council's strategies and costs will be undertaken early in the new financial year. This will build on the success of the "Fundamental Service Reviews" that took place in mid 2010 and laid the foundation for the 2011/12 to 2012/13 £84M Savings Programme.

## **9. Capital Expenditure - 2012/13 and 2013/14**

- 9.1 The Capital Expenditure budgets for 2012/13 is £28M and for 2013/14 £23M. Details are set out in section 6.2 and Schedule 11.

## **10. Financial Outlook - 2014/15 and 2015/16**

- 10.1 The Council has continued to develop its medium term planning capability.
- 10.2 Based on the limited published information on likely local government funding levels, Westminster anticipates further significant funding reductions in 2014/15 and 2015/16 of approximately £7M to £10M per annum.
- 10.3 Further measures will be required to increase income, reduce costs or increase the tax base to meet these funding reductions and protect Reserves. The focus of the next stage of financial planning will be to identify the means to address these.

## **11. Policy Impacts on Westminster Financial Planning**

- 11.1 A major source of medium-term financial uncertainties is the rapidly evolving policy climate. Various initiatives either in implementation or under consideration may have material impacts on the Council's activities with potentially significant financial consequences. These may generate either additional costs or additional income. The policy impacts that are likely to have the most impact are summarised below.

### **a) Housing Benefit/Local Housing Allowance (LHA):**

- The government has allocated £3.7M to the Council to fund Discretionary Housing Payments in 2012/13. This fund will be used to provide short-term assistance to the Borough's most vulnerable claimants affected by the Housing Benefit (LHA) caps.
- There is no direct financial implication for the Council in relation to the Benefits service. However, the Council could see an increase in costs associated with the provision of Temporary Accommodation within Housing if it is not possible to meet the demand for temporary accommodation from the private sector within the CLG set Temporary Accommodation funding regime. There has also been no announcement regarding how Temporary Accommodation will be funded from 2013 when the current regime ends.
- We have taken account risks of £1.7M for 2012/13 and £7.3M for 2013/14 in our planning to reflect these changes.

**b) NNDR (Business Rates) Retention**

- The Government is proposing a new system for the distribution of Business Rates (NNDR) to take effect from 1 April 2013. The Council's response to the consultation paper was submitted on 21 October. The Government subsequently responded to the consultation on 19 December 2011.
- The changes will not affect the level of Business Rates paid by business ratepayers and the multiplier will continue to be set by central government.
- The proposed scheme will replace the existing formula grant funding of local government. A key principle of the scheme is that it should seek to reward local authorities who deliver growth in their business rate yield.
- The proposed scheme is very complex and the financial effect for Westminster will in part be dependent on a number of yet unknown parameters, e.g. the government has yet to set the Council's local share percentage and the national thresholds for the disproportionate growth levy and for the scheme's safety net.
- It has however been identified that there are elements of the currently proposed scheme which include issues / anomalies that are likely to limit the ability of the scheme to meet its objective to drive business growth. The Council is currently lobbying central government for these particular elements of the scheme to be revised during the development of the detail of the scheme and within the relevant regulations.
- We have assumed no financial impact (positive or negative) from Business Rate retention in budget setting.

**c) Council Tax Benefit Reform**

- The Government has issued a consultation document in relation to potentially enabling local authorities to set their own Council Tax Benefit scheme from 1 April 2013. The proposal is based on government achieving a 10% reduction in the total government subsidy funding of Council Tax Benefit. The 10% cut in funding equates to a reduction of £1.3M for Westminster in 2013/14.
- The Council's consultation response was submitted on 14 October and was based on the government re-considering the inclusion of Council Tax Benefit within the Universal Credit, i.e. removing the need for a separate local authority administered Council Tax Benefit scheme. The Government's response to the consultation was published on 19 December and made no material changes to the original consultation proposal.

- The Council is currently undertaking its own consultation as to how a localised scheme could operate in Westminster through its Civic Contract consultation.
- In view of the Council's on-going consultation exercise no decision has currently been taken as to how a localised scheme will operate in Westminster. We have therefore assumed no financial impact (positive or negative) from the Council Tax Benefit reform in the budget setting.

**d) Council Tax Legislation Changes**

- The Government has recently issued a consultation paper in relation to proposed amendments to elements of the Council Tax legislation. The proposed changes relate to discretions to be given to local authorities in relation to the replacement of the existing empty property exemptions with locally determined discounts and the option to remove the existing minimum second home discount.
- It is understood that the government envisages that local authorities may wish to consider the potential inter-relationship between the proposed Council Tax exemption/discount changes and the proposed Council Tax Benefit localisation referred to above, i.e. local authorities may wish to consider how the potential use of additional Council Tax income resulting from the localisation of the specific Council Tax discounts/exemptions could potentially be used to offset all or part of the change in Council Tax Benefits localisation funding.
- As the government has yet to respond to the consultation, there is at this stage no confirmation of which Council Tax exemptions/ discounts will in future be subject to local discretion. The Council is therefore not currently in a position to determine which of the Council Tax exemptions/discounts it will seek to amend. In view of this, the budget model assumes no financial impact (positive or negative) in relation to its proposed Council Tax legislation changes.

**e) Olympics**

- For 100 days during the summer of 2012 London will play host to the largest series of planned events ever to take place in its history. Westminster's position at the heart of London means that our role is pivotal to the success of the Games and officers have been working closely with the Olympic Delivery Agency (ODA) since September 2009 in order to represent the interests of businesses and residents in Westminster.
- The events and restrictions will have wide-ranging implications for Westminster's customers and services. 'Service readiness' operational planning to minimise these impacts has been under way since October 2009.

- The Chief Executive has signed a funding agreement with the GLA, using authority delegated by the Deputy Leader via a written report dated 16th March 2011 setting out the terms of the £4.5M grant to cover some of the additional costs Westminster will incur as a result of the Games. The £4.5M will need to be rigorously justified on the basis of genuine Olympic additionality.
- In addition, there are a number of areas of uncertainty which are difficult to quantify and may represent significant risks.
- We have made no specific risk provision for the Olympics as it is expected all costs will be recovered from the Olympics organisers.

**f) Community Budgets**

- This Programme consists of two phases – the first phase covered families with multiple and complex problems and the second is focusing on joining up all public expenditure in a particular area for which we submitted an expression of interest to be a pilot site.
- For phase 1, the Tri-Borough group successfully bid for funding for two projects to support the Family Recovery Programme in relation to reducing offending and worklessness. Funding of £0.6M was awarded for 2011/12 and 2012/13. We also applied for an additional £0.1M, however, this funding was withdrawn and absorbed into the Troubled Families Programme announced by the Prime Minister in December 2011.
- In relation to phase 2 - On 21 December 2011, CLG announced that the Tri-borough area will be one of four whole-place Community Budget pilots. The pilot will go live on 1 March 2012 and run until 31 October 2012 when an Operational Plan will be completed setting out options for how funding arrangements can be altered and services redesigned in order to improve outcomes and realise savings. Implementation would potentially take place from December 2012.
- Any increase in funding is expected to be directly matched by additional expenditure to match the grant and so has no impact on the net budget.

**g) Public Health Grant**

- Public Health budgets transfer to Council control in April 2013. It is estimated that Westminster's share will be approximately £20M per annum. 2012/13 will be a transitional period whereby further negotiations will be undertaken with the Department of Health and the Primary Care Trust.
- At this stage with further details required on the operation of public health responsibilities we have assumed no impact from these changes on the Council's finances.

## **h) Localism Act**

- The Localism Act seeks to deliver additional powers to local government that may see greater freedoms to use resources or generate additional income. At the same time the Act proposes additional responsibilities and duties that could place greater pressure on financial resources.
- The creation of a “general power of competence” aims to allow local authorities greater certainty that they can take actions by allowing them to do anything an individual is able to undertake unless it is expressly forbidden by law or regulation, thus reversing the previous position where local authorities could only act in ways they were expressly permitted to. The Act also gives the Secretary of State power to remove existing restrictions where they are deemed unnecessary.
- Planning, in particular, is subject to change as a result of the Act. Neighbourhood development plans created by local communities will require significant support in being compiled. Reform of the Community Infrastructure Levy has the power to make it more flexible (being able to be spent on maintenance rather than just the creation of new assets) but may have an impact on the City Council’s successful Public Realm Credits system which is currently based upon Section 106 contributions.
- The Act also introduces a Community Right to Challenge for communities to bid to take over the running of services in their area.
- Communities will be given additional powers to recognise assets of community value (Community Right to Buy) – adapting the disposal/tendering arrangements accordingly so as to give local groups a better chance of taking these assets over which could impact upon the ability of the Council to maximise the sale proceeds of its own disposals. The use of a local referendum will also be mandatory if Councils are considered to be proposing increasing their Council Tax by an excessive amount (a 3.5% threshold has been indicated).
- Housing reforms feature strongly in the Localism Act. The re-basing of the national HRA subsidy system will give the local authority responsibility for the management and maintenance of its housing stock by taking on responsibility for the rebalancing of existing debt in exchange for taking full receipt of future housing rental income. Previously rental income was pooled nationally and then re-distributed. Additionally, changes to the homelessness legislation are aimed at making it easier for local authorities to discharge their duty to house to private sector rented accommodation rather than social housing.
- Risks around the changes to homelessness and private sector rented accommodation of £1.5M have been identified for 2013/14. Additionally a further £1M risk in both years has been identified with regard to freedoms to implement a planning fees based on commercial rates.

**i) Housing Benefit Changes for the Private Sector**

- The direct cost to the Council of homelessness is managing increased activity levels (i.e. costs of investigating applications, identifying alternative housing options etc.) the cost of emergency accommodation (usually bed and breakfast) whilst the investigations are being completed and the provision of self-contained Temporary Accommodation (TA) to households for whom the Council has a duty to house but there is no social housing available. Currently Westminster has 1,783 households in such temporary accommodation, c70% of which is in Borough.
- The Government has undertaken a fundamental structural reform of Housing Benefit support for households and individuals in the private sector. This reform came into effect immediately for new claimants in April 2011 and during the calendar year 2012 for pre-April 2011 claimants. It sets maximum levels of Housing Benefit receivable based on property size. Current analysis of Housing Benefit payments estimates that 4,100 private sector households will be affected during 2012. Westminster has received additional Homelessness Prevention Grant of £0.9M in order to manage and mitigate the impact of these changes on numbers of households vulnerable to homelessness and potentially requiring TA. In addition Discretionary Housing Payments (DHP) funding is increasing from £1.1M to £3.7M in 2012/13. This will also be used to help manage the transition for households and individuals that meet the Council's DHP policy criteria.
- The current TA funding framework is that Council's are able to charge up to 90% of Local Housing Allowance (LHA) with a £40 management fee subject to a cap of £500 introduced in April 2011. Under LHA, a flat allowance is used to decide the eligible rent of all claimants with similar sized households living in a broad rental market area, rather than tying the level of benefit to the individual property.
- The framework set by central government for TA ends in March 2013 and the detail of the new framework has yet to be announced and in particular how this will be linked to the introduction of Universal Credit and the Household Benefit Cap.

**j) Pension Uncertainties and Risks**

- At the last actuarial valuation for 31 March 2010, the employer's contribution to be made by Westminster was set for the three years to 31 March 2013. The employer's contribution is a combination of payment for future service obligations, and payment for deficit reduction. By 2012/13, these payments will be c18% of payroll.
- Given the performance of the capital markets, together with increasing longevity, employer contributions for 2013/14 and onwards may need to be higher, but at present, the quantum and likelihood are unknown.

- The Government generally, and CLG in particular, are consulting on changes to public sector pension schemes, with a view to implementing some or all of the proposals made by Lord Hutton in his review of public sector pensions. While a Heads of Agreement between relevant organisations in relation to the LGPS has been published, there is no further detail about the impact of these discussions on the current LGPS, nor what changes may occur to the Westminster fund as a result.

**k) Corporate Financing Uncertainties and Risks**

- With the uncertainty in the capital markets, the changes in lending rates that the Government have imposed on local authorities as well as other regulatory changes, the costs of borrowing for the Council remain volatile. While interest rates remain near historic lows, there is some uncertainty to the cost of borrowing for a local authority over the Government borrowing rate.
- The Council is also required to make a Minimum Revenue Provision (MRP) as a charge against borrowing to provide for the repayment of debt. The way this is calculated, together with the Council's repayment profile, mean that the MRP may vary in the future.
- There are also a number of technical accounting/IFRS issues as a result of changes in the accounting framework that may affect the underlying calculation and presentation of the Council's accounts in 2012/13 and beyond.

**12. Reserves Policy**

- 12.1 Westminster expects to increase its General Reserves in the 2011/12 financial year by approximately £2M-£3M. Further improvements, although modest, should be possible in 2012/13 and 2013/14.
- 12.2 The Council estimates that its target General Reserves level is £30M-£40M reflecting the volatility of costs and income of a Council operating in the heart of a global City. However, progress towards this target will, by necessity, be balanced against service requirements and operational risk management. In the next two years the Council expects to operate with General Reserves of approximately £20M. Whilst these provide a reasonable level of financial resilience, the General Reserves will remain below the level judged optimal ie £30-£40M.
- 12.3 In addition to General Reserves, Earmarked Reserves of £9.7M in 2012/13 and £6.5M in 2013/14 (excluding Schools and HRA) have been set aside for specific purposes as detailed in Section 14 and Schedule 6.

### **13. Cash and Financing**

- 13.1 The Treasury Management Strategy is presented for approval at the 20 February 2012 Cabinet meeting with the Budget and Council Tax Report. It sets out Westminster's position on the management of cash and borrowings.
- 13.2 It provides routine updates on the financing position and seeks the use of additional investment options, within a conservative risk structure. With the implementation of HRA Self Financing under the Localism Act, the borrowing and cash elements of the HRA and General Fund will now be managed on a notionally separate basis.
- 13.3 Given the current expected capital receipts, cash balances will remain high in the short term, declining over the next 2-3 years with capital expenditure, payments to CLG, internal loans and expenditure where funds are received but not yet spent. Given the prevailing low level of interest rates, Officers are also considering voluntary early repayment of borrowing as a way of making more efficient use funds in the short term.
- 13.4 It is not planned for there to be further borrowing in 2012/13 for the General Fund, with new capital expenditure to be funded from current available capital receipts, and there are no plans for further HRA borrowing, with capital expenditure funded from asset disposals.

### **14. Council Tax**

- 14.1 The power of the Secretary of State to impose the capping of Council Tax increases has been replaced under the Localism Act with a requirement for a local authority to undertake a referendum should a tax rise be proposed above the threshold. The limit for any threshold is to be determined annually by the Secretary of State. For the financial year 2012/13 the threshold for increases was set on the 31st of January 2012 at 3.5%.
- 14.2 Any authority proposing to set a Council Tax increasing from the 2011/12 level by more than this amount would be required to prepare an alternative budget, at or below this threshold increase, that if a referendum voted against the initially proposed increase would then by default apply. In the case of Westminster, this limit equates to a rise of £13.22 against the 2011/12 Band D charge of £377.80. The limit takes no account of whether the existing charge is below or above the national average. With the second lowest tax charge in the country, the ability for the Council to raise additional funds by means of Council Tax charges is significantly reduced when compared to the higher charging authorities.

- 14.3 In setting Council Tax levels, the Council is always mindful of the financial pressures on its stakeholders. This must be balanced against the Council's service responsibilities, likely funding levels, Reserves position, and possible risks. In previous years, the balance of consideration has favoured nil Council Tax increases, although the Section 151 Officer recommendation was for an increase of 2.9% in 2005/06, 5% in 2006/07, 5% in 2007/08 and 2% in 2008/09.
- 14.4 For 2011/12, there was no finance recommendation for an increase in view of the baseline funding offered by HM Government for a Council Tax freeze. However, The Section 151 Officer stated that, in the absence of compensatory baseline funding from HM Government, Council Tax should be increased for 2012/13.
- 14.5 On 3 October the Chancellor of the Exchequer announced funding to allow local authorities to freeze Council Tax for 2012/13. The announcement indicated that the government had set aside an extra £805M to help freeze Council Tax bills. This scheme would be available to all local authorities that decided to freeze or reduce their Council Tax in 2012/13. Adoption of a freeze results in additional funding for Westminster of £1.24M, the equivalent of increasing Council Tax by 2.5%.
- 14.6 Unlike the 2011/12 Council Tax grant, central government will not cover the financial shortfall of the 2012/13 freeze in future years. Over a three year period, a 2012/13 freeze with two subsequent years of 2.5% Council Tax increases would generate £3.9M less in funding for the City Council rather than a 2.5% actual rise in all three years. Against the background of the medium term funding pressures facing the Council, the consequences of a further year of no Council Tax increase should be noted.
- 14.7 For the 2012/13 Budget, this report recommends that the Council adopt a Council Tax freeze for 2012/13. It will therefore receive £1.24M of additional central government funding for 2012/13 only.

## **15. Provisions, Contingencies and Earmarked Reserves**

- 15.1 The Council is projecting Closing Reserves of £17M-£19M as at March 2012. This will vary in line with the scale of expenditure in the final quarter relative to budget. We are likely to add a small increase to Reserves over the next two years of c£3M-£5M with 2012/13 Closing Reserves at around £19M-£22M.
- 15.2 In addition to the General Fund Reserves, there are a number of Earmarked Reserves which have been established for specific purposes and which will be utilised in the short to medium term.

- 15.3 These allocated Reserves can be split into 2 categories. Earmarked Reserves, which can be used to meet short term needs, will stand at £14M at the 31<sup>st</sup> March 2012. Ring-fenced Reserves, which cannot be accessed by the Council other than for specified purposes, amount to £7.2M at the 31<sup>st</sup> March 2012. Details are provided in Schedule 6.
- 15.4 Historically, the Council has carried a central contingency within the budget for risk management. This provides some “buffer” to protect Reserves. For 2011/12, there was no central provision for cost pressures, risks and unforeseen events. It was clearly established that Service Areas were wholly responsible for risk mitigation in their functions. For 2012/13 the containment of risks and costs continues to rest firmly with Service Areas.
- 15.4 Within the balanced budget all the surplus is intended to increase Reserves. However, this does mean that there is some limited provision for risk management outside Service Areas funding envelopes.

## **16. Schools**

### **16.1 Dedicated Schools Grant (DSG)**

- 16.1.1 Schools have been funded primarily via the ring-fenced DSG since 1 April 2006 and unless the Council chooses to top up this grant it is no longer intended that Council Tax income should be used to fund schools related expenditure (apart from Capital financing). From 1 April 2011 most of the schools specific grant allocations merged into the DSG.
- 16.1.2 Westminster's confirmed DSG per pupil allocation for 2012/13 is £6,897. This 0% increase has matched the national average rise of 0%. School delegated budgets have a statutory protection (Minimum Funding Guarantee) that ensures their DSG budget per pupil cannot reduce by more than 1.5%.
- 16.1.3 The indicative total DSG allocation for Westminster (using 2011/12 pupil numbers) for 2012/13 is £103M. This increase implies no changes to the anticipated numbers of pupils and excludes any academies. Actual DSG for 2012/13 will reduce where schools convert to academies during the year.

### **16.2 Academies / “Free Schools”**

- 16.2.1 The funding of education and the role of local authorities in schools management has been subject to change through various policies.
- 16.2.2 Westminster schools that convert to academy status or newly established “Free Schools” obtain their funding directly from the Education Funding Agency. They will receive a budget share equivalent to what they would have had if they were a Westminster school (funded by an adjustment to the DSG paid to the Council).

- 16.2.3 They also get additional funding for assuming the responsibilities of certain education management and administration functions. In order to fund this extra payment, to academies in Westminster, the Council has its Formula Grant reduced. There is no effect in 2012/13 as the reduction in the Westminster Formula Grant to pay for academy funding takes effect in 2013/14.
- 16.2.4 Government has confirmed that this reduction in grant will not increase, in-year, irrespective of how many Westminster schools convert to academy status during 2012/13. Therefore schools converting to academies in 2012/13 have no financial cost implications for the Council in 2012/13.
- 16.2.5 The Council is able to retain an amount of DSG to pay for the education of pupils who are the responsibility of Westminster but who are not in Westminster schools. The Council does not contribute any of its own resources to fund schools, but it is required to fund the management and administration of education services from its own Council Tax/Formula Grant resources.
- 16.2.5 In 2013/14 there is a high probability that the reduction to the Councils Formula Grant, to fund academies in Westminster, will be higher than c£1M, especially if there are a large number of Westminster schools that convert to academy status during 2012/13. This will be subject to the new funding mechanism for schools and local authorities from 1 April 2013. The Government are not due to make formal announcements regarding the new school funding arrangements until later in 2012.

## **17. Housing Finance**

### **17.1 Housing Revenue Account (HRA)**

- 17.1.1 The HRA is a statutory ring-fenced Landlord Account within the Council's overall General Fund, established under the 1989 Local Government and Housing Act. It accounts for the management and maintenance of 12,300 units of social housing within Westminster. The HRA itself is required to set a balanced budget and must not go into deficit, after taking account of HRA reserves.
- 17.1.2 Under the Localism Act 2011, the way the HRA is financed and underpinned will face a fundamental change. These changes take effect from 1 April 2012. This will result in the abolition of the existing national system of housing funding and its replacement with locally managed self financing HRAs. As part of the change, Westminster will need to take on £68M of extra borrowing within the HRA, but will in return get to keep all future rental income.
- 17.1.3 The Council's Arms Length Management Organisation, CityWest Homes Ltd (CWH), undertakes the housing management function on behalf of the Council and has responsibility for the long term investment through the delegated Capital Programme. The contract with CWH is currently in the

process of being re-let for a period up to 10 years following positive resident consultation.

- 17.1.4 The Government will continue to control rent levels and rent increases through Rent Rebate Subsidy Limitation. This regulation limits the amount of eligible housing benefit payable if rent increases proposed by a local authority exceed Government guidance. The presumption underlying Self Financing is that in the long run, social rents' will increase by RPI+1/2%. There are a number of uncertainties that will need to be monitored, including the Right to Buy proposals and future changes to housing benefit collection / payment.
- 17.1.5 However significant positive benefits of Self Financing include the enabling of a more strategic planning horizon with the ability to engage in more commercially focused asset management approaches and the ability to make significant improvements in the procurement process.
- 17.1.6 Self Financing enables a longer term approach to business planning than implied by a medium term financial planning horizon of 3-5 years. The Self Financing HRA is underpinned by a 30 year business model that factors in assumptions about the level of future revenue expenditure and income and the required level of housing investment. Current modelling indicates that the HRA is financially viable and able to fund an increased programme of capital investment of £204M compared to the £150M previously envisaged under the current national subsidy system. Importantly it will have a degree of additional headroom to contribute to the future regeneration of existing housing estates. An ongoing active asset management strategy will underpin the future operation of the HRA and enhance the viability of the account as well as help to develop headroom to reconfigure the stock and to undertake an initially limited programme of building new homes.
- 17.1.7 The HRA Budget for 2012/13 to 2013/14 is set out in Schedule 12.

## **18. Specific Grants**

- 18.1 The 2011/12 Approved Budget contains £486M of specific grant funding, the key elements of which are set out in Schedule 10.
- 18.2 In 2011/12 £21M of previously ring-fenced specific grants were unfenced and amalgamated into Revenue Support Grant. As such they became available to fund general expenditure.
- 18.3 The Council, in setting the 2011/12 and 2012/13 funding envelopes has maintained a policy of requiring, at least in the first instance, any reductions in specific grants awarded to Service Areas to be met by corresponding reductions in service expenditure.

## **19. Levies and Special Charges**

- 19.1 Certain bodies have statutory powers to generate income by making a levy upon the City of Westminster. These charges are incorporated into the overall running costs of the Council and therefore form part of our Council Tax charge. The three bodies able to raise a levy on Westminster are: the London Pension Fund Authority; the Lee Valley Regional Park Authority; and the Environment Agency (Flood Defence).
- 19.2 At the time of drafting this report, final details of the 2012/13 levies have yet to be announced. Our assumption is that the LPFA and Environment Agency levies will remain unchanged at £1.9M and £256k respectively, and that the Lee Valley charge will reduce by £8k to £376k. Confirmed levy amounts will be provided by Cabinet by way of a verbal update at the meeting.
- 19.3 On the assumption that levies will be £2.532M in 2012/13, then, collectively and distributing Council Tax proceeds uniformly across all services, this contributes £19.27 to the overall Westminster Band D amount.
- 19.4 The Montpelier Square Garden Committee has the right to raise a special charge to be collected on their behalf from the local residents of that square. This charge is added to the Council Tax bills of those local residents only and results in a separate Band D Equivalent amount for that area. For 2012/13 the Committee have determined to raise a total charge of £28,000 – down £7,000 from the previous year
- 19.5 Details of the levies and special charges are set out in Schedule 7, whilst the exemplification of the Montpelier Square tax charge is provided within the Council Tax Resolution contained in Annex C.

## **20. Greater London Authority (GLA) Precept**

- 20.1 The GLA raises part of its income by way of Council Tax charges, but collects it by adding a precept to the 33 London Boroughs Council Tax charges rather than issuing bills itself.
- 20.2 The Mayor's draft budget for 2012/13 proposes a one percent reduction in the Council Tax – lowering the Band D amount from £309.82 to £306.72, a drop of £3.10. The effect of such a change is to reduce the total amount collectable from Westminster residents by just over £51,000. Further details of the budget and precept are contained in Schedule 7.

## **21. Consultation**

### **21.1 Consultation with the community and stakeholders**

- 21.1.1 On 12<sup>th</sup> December 2011 a Green Paper consultation began on the future direction of public services in Westminster called the Civic Contract. This covered a range of topics across the Council, but focused on three areas, People, Place and Prosperity.

- 21.1.2 The consultation document contained 59 open-ended questions on a range of topics. It was not expected that everyone will answer every question. Instead they would pick and choose the most relevant. For the online survey there are different versions; one with all the questions, which people can skip through to the questions they want, and also eight audience based surveys which only contain relevant questions for that group.
- 21.1.3 In its opening week the following was done:
- Consultation document and survey put online;
  - Launch event Cavendish Square (50 attendees);
  - Article in the Guardian and Evening Standard;
  - 48,000 approx residents contacted through the MyWestminster e-newsletter;
  - 16th December 2011 – Letters sent out from the Leader;
  - 2,170 residents, businesses and stakeholders contacted by email from the Leader; and
  - 70 hard copies sent out to ministers, special advisors.
- 21.1.4 The Leader, Councillor Colin Barrow, appeared on the BBC Today programme during the second week of the consultation.
- 21.1.5 In the third week of the consultation separate versions of the survey were added on line for eight audiences with relevant questions in relevant parts of the website; Young people; Tenants and lessees; Parents and guardians; Civic community; Unemployed; Planning Community; Motorists; Businesses.
- 21.1.6 Staff working at the Council was also able to have their say in the Civic Contract. Thirty staff members attended the event.
- 21.1.7 Week commencing 6<sup>th</sup> February saw the two Listening events with Councillors meeting key stakeholders to discuss the Civic Contract. All attendees, around 30 at each event, had filled out the survey and these have been added to the response list. The consultation closed on 10<sup>th</sup> February 2012.
- 21.1.8 However, given the fact that this report was completed and issued on 10th February in advance of the Cabinet meeting on 20th February, we were unable to provide an indication of responses to the consultation within this report.
- 21.1.9 The analysis and reporting is likely to be finalised before the end of February and the second stage of consultations are individually planned for policy implementation from March 2012 onwards.
- 21.1.10 Section 65 of the Local Government Act 1992 places a duty on the Council to consult each year with representatives of the business community on the its budget proposals.

- 21.1.11 A summary of the Council's 2012/13 budget has been placed on the Council's internet pages inviting comments. This webpage set out the current year budget and the budget changes already agreed as part of the February 2011 two-year budget setting process. A link to that agenda item was also included on the web page.
- 21.1.12 Regular surveys of residents' views confirms the value that is attached to clean streets. In line with this and a response from consultation we have provided additional funding of £2M to City Management for street cleansing through the budget process and hence removed the need to make any further planned reductions to the street cleansing budget.
- 21.1.13 One response was received from the New West End Company, and is set out in Annex A.

## **22. The Scrutiny Process**

- 22.1 The Westminster Commission agreed at its meeting held on the 3 July 2007 to set up a Budget and Performance Task Group as a Standing Task Group, with the following terms of reference:
- 22.2 *"To consider, on behalf of the Policy and Scrutiny Committees, Budget Options and Draft Business Plans and Estimates at the appropriate stages in the business planning cycle and to submit recommendations/comments to the cabinet and/or Cabinet Members.*
- 22.3 *To consider any issues arising from performance monitoring reports referred to it by the Audit and Performance Committee for scrutiny and to submit recommendations/comments thereon to the relevant Cabinet Member(s) and or Chief Officer(s)".*
- 22.4 These terms of reference were agreed by the current budget and Performance Task Group at their first meeting on 24<sup>th</sup> January 2012.
- 22.5 The Budget and Performance Task Group reports to the Finance and Transformation Policy and Scrutiny Committee. Cabinet must take into account any views from the Budget and Performance Task Group in drawing up firm budget proposals for submission to the Council, and the report to Council must reflect those comments (and those of other Task Groups and Committees, if any) and the Cabinet's response.
- 22.6 The first meeting, on Tuesday 24<sup>th</sup> January 2012, established the group's membership, the programme of work and corresponding timetable and looked at the provisional budget. Officers presented an overview of the budget assumptions which had been used, and provided an update on current risks and implementation plans for delivering the budget. After this presentation on the budget, there was a discussion on the Council's reserves, homelessness costs, parking income, amber risks of inflation, the New Homes Bonus, capital spending, the Eurozone crisis and business rate changes.

- 22.7 After examining the overarching budget context, the meeting assessed service areas including: Built Environment, City Management, Adults Services, Children's Services and Housing.
- 22.8 Each Chief Officer and finance lead presented a paper or presentation highlighting the key areas of risk, how the Service Area would meet the budget challenge, and what impact would be felt on the services delivered.
- 22.9 In relation to the **Built Environment** area, there were discussions on income generation, income streams, service complaints, the methods of savings in the following year and the impact of the Olympics.
- 22.10 In relation to **City Management**, the group asked questions on savings programme, the flexibility of current contracts, waste collection, recycling, the Olympics and the Jubilee (in terms of enforcement) and public conveniences.
- 22.11 When discussing **Adults Services**, the group asked a number of questions on inflation, mental health needs, the domiciliary care contract, savings made so far, the levels of complaints made against services, taxicards and the impact of reassessments on service users.
- 22.12 Relating to **Children's Services**, the Task Group asked about Housing Benefit changes, countering gangs and gang violence, provision of services for children and young people, SEN transport provision and Tri-Borough (or multi-Borough) approaches to savings.
- 22.13 When assessing **Housing**, the group asked a number of questions about family sized accommodation, housing benefit caps, discretionary housing payments, homelessness and benefit fraud.
- 22.14 The second meeting, on Wednesday 1<sup>st</sup> February 2012, assessed **Finance and Operations and the Chief Executive's budget** (including Communications and Strategy, Legal and Democratic Services, Corporate Property, Libraries, Sports and Leisure). The Task Group then proceeded to assess two specific issues requiring longer discussions. On Parking and Transformation, the task group specifically wanted to examine forecasting, accuracy and savings within the context of the 2012/13 budget setting process.
- 22.15 In relation to **Finance and Operations**, the Task Group probed about Project Athena, Tri-Borough working, underspending, slippage, fraud statistics, debt recovery, responsibility for service budgets, inflation, reductions in budgets, back office savings, IT systems, leasehold arrangements of One Stop Shops and the costs of the switchboard system.
- 22.16 When assessing **Transformation**, the task group asked about the savings produced as a result of the transformation programme and the need for Councillors to receive figures to express the results obtained.

- 22.17 When examining areas of the **Chief Executive's budget (SEB & Strategic Support)**, the committee posed questions about transformation savings from HR, the budget of HR, the branding income, the sites which could be used to provide income, internal and external charging for legal services, the utilisation of empty floors of City Hall, the possibility of opening space for small firms to use on a desk basis, decisions on Marylebone Library and Tri-Borough savings on Libraries.
- 22.18 In relation to the extended discussion on **Parking**, the Task Group asked questions about the forecasting model for the Olympics including modelling in other cities with regards to traffic flow and ensuring we meet the needs of businesses in the night-time hours during the Olympics, the budget envelope, addressing variations in forecasting, budget assumptions, double yellow lines compliance, driver reactions to recent changes, real-time information on parking, the availability of management information, PCNs and casual parking, and key risks and activities from car parks within Westminster.
- 22.19 On 20<sup>th</sup> February 2012 the Task Group recommendations will be presented to Cabinet for consideration. Cllr Michael Brahams, the Chair of the Budget and Performance Task Group will attend to present the report. Task Group meeting notes are included as Annex B.

### **23. Legal implications**

- 23.1 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.
- 23.2 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.
- 23.3 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 Tax payers and ratepayers on the one hand and the users of Council services on the other are both taken into account.

- 23.4 The Local Government Act 2003 imposes a duty on the Chief Operating Officer, as the City Council's Section 151 Officer, to report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed reserves. Her report is set out in Sections 5-9 above and the Council has a statutory duty under the 2003 Act to have regard to the report when taking its decision.
- 23.5 Section 28 of the Local Government Act 2003 imposes a duty on the Council to monitor its expenditure and income from time to time throughout the financial year, and to take such action as it considers necessary if the budgetary situation deteriorates. The estimates involve a number of assumptions, including in particular assumptions about the deliverability of savings proposals. If or to the extent that these assumptions do not prove to be well-founded, the duty under Section 28 may involve a need to take further decisions to reduce spending in year, or to increase income, or to make further use of Reserves.
- 23.6 Under Section 114 of the Local Government Finance Act 1988, where it appears to the Section 151 Officer that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Section 151 Officer has a duty to make a report to the Council. The report must be sent to the Council's external Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Section 151 officer. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor.
- 23.7 Some savings proposals may only be delivered after specific statutory or other legal procedures have been followed and/or consultation taken place. Where consultation is required the Council cannot rule out the possibility that they may change their minds on the proposal as a result of the responses to a consultation, and further reports to Cabinet may be required.
- 23.8 Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. This is addressed in Section 23 below. In developing 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.

- 23.9 Section 106 of the 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.
- 23.10 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.

#### **24. Equalities implications**

- 24.1 Under the Equalities Act 2010 the Council has a legal duty to pay 'due regard' to the need to eliminate discrimination and promote equality with regard to the six protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief and sexual orientation.
- 24.2 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.
- 24.3 Officers have undertaken impact assessments in respect of the budget proposals that have an impact on service delivery setting out implications in relation to equality groups. Members should consider the impact of changes on different equality groups when making their decision in order to meet the duty.
- 24.4 As a two year budget programme was set in 2011/12 many of the savings identified in this budget are savings aligned to the second year of implementation. Equality impacts were therefore considered in the formative stages of the 2011/12 budget and therefore impacts remain largely as stated in the 2011/12 Budget and Council Tax Report.
- 24.5 An Equality Impact Assessment on the budget proposals is set out in Annex D. A number of proposals are shown to have a positive impact. On-going assessment and development of mitigating actions will continue throughout the implementation of this second year savings programme.

- 24.6 The budget proposals have the potential to have a moderate to significant impact on disabled people. This is as a result of the cumulative effect of proposals in Adult Services and Children's Services. These include changes to the eligibility threshold for social care services; reductions in expenditure in day care; other related adult social care proposals; reductions to Special Educational Needs transport services and Children in Need services. The budget proposals concerning changes to the eligibility threshold for social care services also have the potential to have a moderate impact on older people.
- 24.7 There are a small number of proposals that have an impact on race because people who identify as Black & Minority ethnic (BME) make-up the majority of services users where changes are planned, for example the reduction of higher cost placements for looked after children and the tighter management of carers' allowances. However the nature of the proposals combined with the small number should mean that the overall impact is minimal. There is the potential for a larger impact on race because of the change from grants to the voluntary sector to the commissioning of services, as some organisations that support BME communities may no longer be supported under a commissioning approach. Implementation will continue to be closely monitored to help ensure that any impact is minimised as much as possible.
- 24.8 There may be a disproportionate impact on women as a result of reductions in play services, day care for children and other youth and young people's activities, which is likely to increase caring responsibilities which women are more likely to undertake.
- 24.9 The impact on religion or belief and sexual orientation is negligible.
- 24.10 The impact on the Council's workforce is being assessed as part of the HR transition processes.

## **Schedules**

- 1 2011/12 Budget Re-Basing
- 2 Sources of Income
- 3 Expenditure Requirements
- 4 Net Budget Requirement by Cabinet Member and SEB
- 5 Details of Budget Changes
- 6 Movement in Reserves
- 7 Levies, Special Expenses and Precepts
- 8 Formula Grant (Revenue Support Grant) & Council Tax
- 9 Uses of Council Tax Income
- 10 Subjective Budget Analysis
- 11 Capital Expenditure Plans
- 12 Housing Revenue Account (HRA)

## **Annexes**

- A 12/13 Budget Consultation Responses
- B Budget and Performance Task Group meeting notes
- C Council Tax Resolution
- D Equalities Impact Assessment

## **Background Papers**

Budget and Council Tax Report 2010/11 21 February 2011

Council Meeting and Agenda of 2 March 2011

Report to Cabinet Treasury Management Statement 20 February 2012

Report to Audit and Performance Committee on 8 of February 2012

**If you have any queries about this report or wish to inspect any of the background papers, please contact: Anna D'Alessandro on 0207 641 1184 or at [adalessandro@westminster.gov.uk](mailto:adalessandro@westminster.gov.uk).**