Item 4

City of Westminster Cabinet Report

Date:	**25 February 2013**
Status:	**For General Release**
Title:	**Budget and Council Tax Report 2013/14**
Wards Affected:	**All**
Financial Summary:	**This report sets out the Council's financial framework for the following financial year**
The Report of:	**Mike More, Chief Executive** **Tel: 020 7641 2358** **and** **Barbara Moorhouse, Chief Operating Officer** **Tel: 020 7641 2904**

1 Executive Summary

1.1 Over the last 2 years Westminster City Council has successfully delivered a major £84M savings programme in order to meet substantial funding reductions by Central Government. Information for 2013/14 and future settlements indicate some significant savings will continue to be required over the medium-term.

1.2 The funding regime to Local Government has undergone a major shift since the Comprehensive Spending Review was announced in the autumn of 2010. Specific grants are being increasingly rolled into formula funding, although there are still a significant number of ring-fenced grants. We have seen this trend continue in 2013/14.

1.3 There has been a significant move away from a traditional Revenue Support Grant basis to Business Rates Localisation. This will have sizeable consequences for Westminster given the considerable volume of Business Rates the Council collects, which is in the order of £1.8BN. Precisely how this regime will work operationally, or its affect on Westminster, is still uncertain. We expect further announcements from the Department of Communities and Local Government (CLG) in the next month.

1.4 The Local Government Finance Settlement was announced on 19th December 2012, indicating formula funding reductions for Westminster of £7.6M for 2013/14. In addition, the Council estimates it would be facing a c14% adverse impact (the net impact of growth and appeals) of NNDR/Business Rates of c£6M (after Safety Net). The total impact of funding reductions to the Council is therefore c£14M for 2013/14.

1.5 Service Areas have identified £12M of savings initiatives/change programmes in order to bridge the gap in the Council's finances. Depending on NNDR impacts, the projected £2M shortfall will be met from a draw-down of Reserves or by identifying further cost reduction/efficiencies or the generation of additional income through the medium-term.

1.6 For 2014/15, a further £19M reduction in funding is expected. This is headline only with the detail expected from CLG in the next financial year. There are still uncertainties with regards to the operational aspects of NNDR/Business Rates and the further roll-in of specific grants.

1.7 We have a number of large procurements currently underway such as the Tri-Borough Managed Services Programme which will begin to deliver benefits over the next 2-3 years. This is part of the Council's continuing quest for efficiency.

1.8 Public Health budgets transfer to Westminster Council's control from April 2013 on a Tri-Borough basis. Westminster's budget is £32.3M per annum and will be fully balanced for 2013/14.

1.9 In the 2012 Council Tax Report we outlined a number of policy/legislative changes which create uncertainties in financial planning. These were subsequently factored into the budgeting/financial planning process. For 2013/14 there are some additional initiatives which may impact the Council's finances, two particular examples being: Universal Credit and further Welfare Benefit changes. **Section 13** provides an update on issues identified in last year's report and more detail on the new legislative arrangements.

1.10 The Council plans to deliver a balanced budget for 2013/14 and 2014/15 in order to smooth what is expected still to be a declining level of resources. The intention is to identify opportunities to strengthen Reserves in the future either through cost reductions, efficiencies or activities to generate additional income. A small increase in Reserves is anticipated for 2012/13 and the extent of this build will depend on the financial performance of the Council over the last 2 months of the financial year.

1.11 The Council adopts a robust and proactive two-tiered approach to risk management at the strategic/corporate and operational/Service Area level. Risks are closely monitored and reviewed regularly throughout the financial year with mitigating strategies identified as part of this process.

1.12 A 1% Council Tax freeze grant will be payable in 2013/14 if a zero percent Council Tax increase is approved. This represents only a 1% incentive and generates £0.5M in 2013/14. The 2013/14 grant has so far been announced as a one-year only grant and will not be built into the base budget in subsequent years. This will be the seventh consecutive year at the same level of Council Tax for Westminster.

1.13 In January 2013 the Leader of the Council launched Better City, Better Lives. This five year vision sets out a new role not only for the Council but also for residents, businesses and visitors to help us deliver for Westminster. This is underpinned by three principles: **Fairness, Opportunity** and **Responsibility**. These principles will make up the 'F.O.R' test against which every policy, project, programme and service undertaken by the Council will be tested. We will work to ensure this is in line with management objectives and priorities.

1.14 Throughout the process of setting the budget the Council has been mindful of the impact of service changes or reductions on residents and the service users and an Equalities Impact Assessment is included in **Annex C.**

2 Recommendations

2.1 That Cabinet approve the budget and recommend to the Council the approval of the 2013/14 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 B.**

2.2 That Cabinet approve the Capital expenditure programme as set out in **Schedule 11.**

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 2012/13 **(i.e. £377.80)** in 2013/14, 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 2014, be as specified in the Council Tax Resolution in **Annex B** 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 A** 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 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 Moving from a Living City to Better City, Better Lives

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

4.1.2 In order to set working budgets for 2011/12 and 2012/13 the Council acted swiftly to address this funding pressure by conducting a Fundamental Service Review to support decision-making and prioritisation. After thorough challenge, a programme was set to deliver £84M of savings by 2012/13. This target has been achieved whilst ensuring the majority of reductions come from the back office and through sharing services rather than cuts to frontline service delivery.

4.1.3 The Council's vision for a Living City was launched in 2009 and refreshed to drive the improvements, initiatives and change agenda over this two-year period. Our Living City programme has now concluded and has seen major improvements in the public realm including a revamped Leicester Square and Piccadilly two-way system and record school attainment.

4.1.4 Some of the successes and improvements made over the past year:

- Our groundbreaking shared services agreement with Hammersmith & Fulham and Kensington & Chelsea has already improved Children's, Adult's and Library services. And we estimate that, by 2015/16, we will be saving £40M a year across the three Councils;
- We have signed a major Framework Agreement with BT for a Tri-Borough Managed Services for Finance and HR. This will deliver value for money to local taxpayers and generate substantial efficiencies for staff working across the three Councils as we move to a common platform for these major back office functions. There are opportunities for even more savings if other Local Authorities join this arrangement;
- Westminster's Primary and Secondary Schools are amongst the best performing in London with almost 70% of pupils gaining top grades at GCSE;
- Re-launched the 'healthy schools' programme in Westminster to better promote the importance of health and wellbeing with children and young people;

- We are closing the attainment gap between pupils with Special Education Needs and their peers by 10% at Key Stage 2 and almost 9% at GCSE level;
- Taking leadership in the West End through the creation of the West End Commission to ensure that the area remains a globally important centre and in tackling some of the more long-term challenges;
- We have developed more opportunities for disabled people including the 'Inclusive and Active 2' plan to promote improved access to opportunities for people with limited disabilities and delivered a 10% increase in sports provision for people with disabilities in Westminster including sports and age specific programmes; and
- We have helped to prevent more than 650 households from becoming homeless through our active homelessness casework, almost double the number than the previous year.

4.1.5 The Council now faces new challenges in this era of austerity and must become bolder and more creative to continue to provide the quality services our residents expect. We will be developing our Better City, Better Lives programme to drive improvement by asking everyone to take responsibility for the City, and the Council will seek to create “ladders of opportunity” for people and businesses to fulfil their potential.

4.2 Better City, Better Lives

4.2.1 In January 2013 the Leader of the Council launched the Better City, Better Lives programme. This 5 year vision sets out a new role not only for the Council but also the roles we expect residents, businesses and visitors to play to help us deliver for Westminster.

4.2.2 **Fairness, Opportunity, Responsibility**

Underpinning Better City, Better Lives are three principles:

- **Fairness -** Making sure that services are targeted at those who need the most;
- **Opportunity -** Creating ladders of opportunity so that people can achieve their potential and live happier, healthier lives; and
- **Responsibility** - Encouraging residents, communities and businesses to take responsibility for themselves and their local areas.

These principles will make up the ‘F.O.R’ test. From now on, every policy, project, programme and service undertaken by the Council – and designed to deliver its ambitions – will be tested against these principles.

4.2.3 These principles have a direct connection with how our City operates and the quality of life within it. For example, many of the issues which most annoy our residents (e.g. dog fouling) can be tackled by promoting a stronger sense of responsibility. We will encourage people to take more responsibility for their actions and their neighbourhoods.

4.2.4 We think that businesses should consider themselves part of a community. This isn't just about making charitable donations. It is also about helping to ensure that young, local people get employment opportunities. We know that businesses, in the main, share this view so we will help them to support the local community.

4.2.5 This is also a destination City. There is so much to see and do here and we are proud of that fact. But, just as we expect our residents and businesses to act responsibly, we also expect visitors to do so. This means throwing rubbish in bins, not urinating on streets, and observing parking rules.

4.2.6 In delivering Better City, Better Lives and guided by these principles, we will focus on three strategic ambitions:

A Safer, Healthier City

4.2.7 We want to ensure that everyone in Westminster feels healthy and safe. The Council will take on new statutory duties in shaping Public Health in the local area from April 2013. Health providers and the NHS will continue to play their crucial part in tackling health issues in the City but it means more than that. We will provide information to residents that will enable them to take their own steps to improving their own health. We want our residents to be able to access good and cost effective sports and leisure facilities and to become more active with the benefits that brings.

4.2.8 Feeling safe at home and in the City is one of our top priorities. Our efforts to tackle youth violence and gang related crime are bearing fruit but we are not complacent in the challenges that we face. We want communities to come together to support each other and the Council will provide specialist services to ensure our residents, business and visitors can enjoy Westminster and what it has to offer.

To deliver a Safer, Healthier City we will:

- Tackle gang violence by extending our Your Choice programme;
- Build on the success of the Family Recovery Programme, supporting troubled families;
- Inform residents, workers and visitors about how to stay safe in the City;
- Put in place twelve Olympic legacy projects, including Westminster Miles, a one-mile running event in May 2013;
- Continue to offer low-cost sports facilities and promote ways to be more active;

- Provide public health services; and
- Support every person living with injuries, disabilities or long-term conditions to achieve a better quality of life.

A More Enterprising City

4.2.9 Westminster provides fantastic opportunities to businesses, whether large or small, established or aspiring. We will encourage businesses to make the most of these opportunities.

4.2.10 With so many workers coming to the City each day, it creates a higher demand on our services. In return, we expect businesses and workers to act responsibly.

4.2.11 To deliver a More Enterprising City we will:

- Encourage businesses to offer opportunities to local people;
- Provide information and advice to start-ups and SMEs;
- Invest in the public realm and infrastructure;
- Make parking rules easier and fairer than ever before;
- Act on advice from the West End Commission about how to safeguard the long-term future of the West End;
- Support volunteering and mentoring opportunities to help unemployed people get back into work;
- Establish a second business start-up hub, this time in the north of the City; and
- Continue to invest in the public realm as we have done across the City, from Church Street to Leicester Square.

A Better Connected City

4.2.12 We believe that the more people get on with each other and feel ‘connected’, the better their quality of life will be. So we will encourage and make it easier for people to become more active in their local communities.

4.2.13 We know that many of our residents want to be more involved in the decisions which affect their local area. We will give them more opportunities to do so. Too many young people in Westminster are currently unemployed. We will work with local business to help provide more opportunities and work experience, and encourage young people to make the most of these opportunities.

4.2.14 We believe that volunteering makes a huge difference to people’s lives in Westminster. So we will make it easier for people to volunteer. We will help to source volunteering opportunities and we will increase our support for the voluntary sector. In return, we would like everyone in Westminster to consider taking up volunteering opportunities.

4.2.15 We also believe that giving people a greater say in their communities will improve their lives and make them feel better connected. That is why we have supported the creation of a community Council in Queen's Park. We will support the creation of new neighbourhood forums over the coming year that again have the ability to give local people a greater say. This is a good example of how the Council is empowering its communities and generating the sense of civic responsibility for its local area.

4.2.16 To deliver a Better Connected City we will:

- Continue to invest in Small Grants, Neighbourhood Funds and voluntary sector support (such as VCW and WAVE);
- Encourage businesses to be more philanthropic and support the voluntary sector;
- Make it easier for people to get involved in local decision-making;
- Make it easier for people to volunteer;
- Encourage the Council's own staff to volunteer in the City;
- Extend free WiFi provision across the City;
- Make it easier for people to contact us and find out important information; and
- Push forward with our own devolution programme across the City that puts powers in the hands of residents and their communities.

4.2.17 At the heart of everything that we do is value for money. We are constantly striving to improve the services that we are able to give to local people. That means that we need to embrace new ways of working, ways that do not mean slashing front line services but that actually look at doing things differently including sharing services. Below are just a few examples of how we are doing this.

4.3 Sharing Services: Tri-Borough one year on

4.3.1 In June 2011, the Tri-Borough plans were published in a programme of joint working with the 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.

4.3.2 We are now 18 months further on and we have already delivered on our commitment to join services where it makes sense to do so. There are now Tri-Borough Services for Adult Social Care, Children's Services, Libraries and Treasury and Pensions.

4.3.3 We are on-track to deliver savings of £40M per annum across the three Boroughs by 2015/16.

4.4 What we have achieved so far

4.4.1 In Adult Services a Tri-Borough team has been established to enable us to provide more resilient commissioning and brokerage at lower costs and we are making strides in home care quality and placement costs. Also the Integrated Care Programme in North West London – working across GPs, Hospitals, Community Health and Social Care to improve multidisciplinary working and reduce hospital admissions won a National Health Service Journal award for Leadership. This programme has brought together a new network of leaders in health and social care and shown the way for our future plans to deliver integrated care across the whole system.

4.4.2 Children's Services Fostering and Adoption and the Youth Offending Service operate on a Tri-Borough basis to share expertise and costs. The Tri-Borough Local Safeguarding Children Board ensures the co-ordination and effectiveness of all safeguarding and child protection work across the three Authorities.

4.4.3 Residents have benefited from some of the changes in Libraries being able to withdraw books and media from a broader stock of over 1,000,000 items from any Tri-Borough Library.

4.4.4 We are also pursuing opportunities to drive down costs and inefficiency in our back office services. This is essential to preserve frontline services and allow us to redirect funding into new areas. We have recently signed a major Managed Services framework agreement with BT to provide a common Finance and HR platform across the three Boroughs. This will lead to more efficiency and allow Tri-Borough teams to use one system for these activities rather than three.

4.5 What we have left to do

4.5.1 We remain ambitious in our plans and we are conscious that other Authorities are looking at our lead for the results it can bring.

4.5.2 We are looking at the next stage of efficiencies in Finance, HR and Procurement through the Athena Managed Services Programme. The procurement for this programme was completed in January 2013 with BT announced as the third party supplier. This contract will give improved systems and technology supported by additional services provided by the supplier.

4.5.3 We need to embed our Public Health duties and define the new role for ourselves.

4.5.4 We will work to improve how we tackle gang crime and serious youth violence.

4.6 How we will continue to stretch ambition and meet future challenges

4.6.1 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.

4.6.2 We are now in discussions with the government about implementing a range of ambitious projects within our whole-place community budget. 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. This is an important and significant opportunity for the City Council to contribute to the public sector reform agenda.

4.6.3 We are also in discussions with the Mayor and other London Boroughs around the creation of a possible London City Deal that again would seek to bring greater freedoms and powers to allow the Council to target those issues that are key priorities to our residents and businesses.

4.6.4 Underpinning these, progress is being made on major areas of procurement and back office service design which will yield significant savings from 2014/15 onwards.

5. Financial Strategy

5.1 Since the Comprehensive Spending Review (CSR) was announced in October 2010, Westminster City Council has embarked on a wide-ranging programme of significant change initiatives in order to meet substantial funding reductions from central government. Over the two year period since the CSR was announced (2011/12 to 2012/13), the Council has identified and successfully delivered £84M of savings initiatives, mitigated risks and strengthened Reserves.

5.2 In 2013/14 there will be a significant shift in how Local Government is financed, with a move away from the traditional Revenue Support Grant (RSG) route to one based on Business Rates Localisation. This is likely to have considerable consequences with some risks for Westminster City Council given the magnitude of business rates that we collect. These radical changes to funding arrangements come with significant complexities and uncertainties. As from 2013/14, a part of Business Rates income will be retained by the Council, rather than being directly passed on to central government, as they have been previously. There is also uncertainty with regards to the levels and timings of appeals. As a result, any upsides or downsides will directly affect the Council's budget.

5.3 Changes to the funding regime have been occurring since the CSR was announced with specific grants being increasingly rolled into RSG. However the changes proposed for 2013/14 and beyond are the most radical that Local Authorities have seen in decades. Given that technical and operational details are still being defined, exactly how the Business Rates regime will work in practice is still very uncertain and is subject to risks and uncertainties. Central government has issued technical guidance on the matter however this still requires some clarification. We would need to see further guidance before we could take a view as to how the Council will factor this into our budgeting and financial reporting arrangements.

5.4 Public Health budgets transfer to Council control from April 2013. Westminster is running this on a Tri-Borough basis on behalf of the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. Westminster's budget is £32.3M per annum. During 2012/13, detailed discussions have taken place with the Primary Care Trust and Department of Health officials. These discussions have led us to conclude that the Westminster Public Health budget is balanced.

5.5 Funding from central government by way of a freeze grant has been very volatile over the last few years. In 2011/12, a Council Tax freeze grant was payable from central government as no increase to Westminster's Council Tax was proposed. Although initially only for 2011/12, this grant has been made permanent and as such the Start-Up Funding (incorporating RSG) includes £1.228M of funding to compensate for the loss of Council Tax income arising from the zero percent increase. The Council also benefitted from a second Council Tax freeze grant in 2012/13 totalling £1.241M, however this remains a "one-off" grant and as such will cease in 2013/14. A 1% freeze grant will be payable in 2013/14 which will represent only a 1% incentive and as such would generate £0.5M in 2013/14. The 2013/14 grant, like its immediate predecessor has so far been announced only as a one year grant and will thus not be built into the base budget in future years. The Council has chosen to keep the Band D Council Tax amount at the same level of **£377.80** since 2007/08 – this would be the seventh consecutive year at that same amount if the recommendation is adopted.

5.6 The Local Government Finance Settlement of the 19th December 2012 delivered a two year settlement and announced real (net of rolled in grants) formula funding reductions of £7.6M, in addition to the reductions over the previous 2 years. This reduction is relative modest compared to the previous 2 financial years. However, without the damping of grant reductions the Council would have seen a fall in funding closer to £38M. This is due to various factors: a reduction in the overall amount being distributed to Local Authorities, reductions in Westminster's assessed population, less emphasis on relative need and density and more emphasis on sparcity. The Autumn Statement of 5th November announced that further funding reductions to Local Authorities are likely to continue into 2016/17.

5.7 In addition, Westminster estimated it would be facing a 14% adverse impact (the net impact of growth and appeals) of NNDR/Business Rates of c£6M (after Safety Net). Taken together, the total impact of funding reductions to the Council is c£14M for 2013/14. We will take stock of this in the next round of budget planning.

5.8 For 2014/15, we expect a further £19M reduction in funding, excluding any inflationary impact. Even though we have been provided with a 2 year settlement, for 2014/15 this is headline only. There are still uncertainties about the roll-in of specific grants and how the NNDR/Business Rates retention scheme will fully unfold and therefore impact the Council in future years.

5.9 Despite the already significant reductions in funding over the last 2 years and those over the medium term, the Council will deliver a balanced budget across both years. It is our intention to seek opportunities to strengthen Reserves as per our Reserves policy. Also in line with Council policy, any reductions in specific grants will be matched by reductions in expenditure.

5.10 The Council adopts a robust two-tiered approach to risk management, with a focus on strategic/corporate risks and operational risks at the Service Area level. We track and monitor these closely throughout the financial year through routine financial reporting and also throughout the budget setting process.

5.11 In last year's Council Tax Report we set out a number of policy/legislative issues which created some uncertainties and which we would factor into our budget setting and planning. There are some additional major legislative initiatives which may impact the Council's finances, two particular examples being: Universal Credit and Welfare Benefit changes. These are outlined in **Section 13** of this report. The Council will be considering these impacts as part of its medium-term financial planning.

6. Financial Performance – Revenue 2012/13

6.1 Over the last 2 financial years, Westminster has successfully delivered a comprehensive £84M programme of investment and change in order to meet significant funding challenges. These have included general cost reduction efficiencies and income generating activities across the Council. Some large back-office re-procurements are currently underway which will deliver ongoing benefits to the Council over the next 2 years and beyond. Refer to section 4.5.2.

6.2 As at Period 10 (January 2013), there is the potential for a small addition to Reserves for the Council. Broadly all Service Areas will contribute to any surplus. A build to Reserves however will be dependent on the Council's performance in the last two months of the financial year.

6.3 In line with our approach to risk management, as part of the 2012/13 budget setting process we set aside a small corporate provision to cover "Red" risks identified by Service Areas at the time. Service Areas were expected to mitigate their "Amber" risks. All corporate and Service Area risks have been managed within that provision.

6.4 In 2012/13 the Council delivered major change, effectively monitored and managed risks and identified a potential strengthening of Reserves. This success has been underpinned by: strong project/programme/change management, delivery assurance processes, continuous improvement to financial management, reporting and control across the Council and the benefits from sharing and Tri-Borough arrangements. In 2012/13 we embarked on a programme of maximising our income through the Commercial Opportunities Review Board which will deliver dividends from 2013/14 onwards.

7. Revenue Budget for 2013/14

7.1 For the next financial year, the Council has set a balanced budget. Given the scale of major change initiatives and programmes underway in 2013/14 and into 2014/15 it would be prudent to strengthen Reserves to provide financial resilience against the impacts of NNDR volatility. The extent to which we will be able to build Reserves will be determined over the course of the next financial year when it will become more apparent how NNDR localisation will impact the Council's finances.

7.2 The Local Government Finance Settlement announced a reduction in our funding streams for 2013/14 of c£14M. This is comprised of c£8M of RSG/formula funding reductions and c£6M of potential adverse impacts of Business Rates Localisation. Service Areas were tasked with delivering c£12M of savings initiatives to bridge the Council's financial gap. Service Areas have indeed identified this magnitude of savings and have developed robust programmes of change which underpin these. These can be found in **Schedule 5**. Depending on NNDR impacts, the £2M shortfall can be met from a draw down in Reserves, or through generating efficiencies or additional income from elsewhere across the Council.

7.3 We ensure a proactive and thorough approach to financial risk management across the Council. We set our strategy at 2 levels: at the corporate and operational level and make provision accordingly. Within this provision, there are significant risk areas including; multiple Housing policy changes which are very salient for the Council and the unpredictability of the new Business Rates Retention scheme.

7.4 In addition to costs and pressures, Service Areas have undertaken a risk assessment as part of budget setting and identified risks comprising: c£8M "Red" and c£16M of "Amber". In line with the approach adopted in 2012/13 to risk management we are proposing to establish a moderate corporate contingency to cover employee and external contract costs. No provision for "Amber" risks will be made. This approach to risk management proved to be very successful in risk mitigation in 2012/13.

7.5 We have identified a number of opportunities from corporate areas including the ongoing effective management of Treasury activities and increasing control and scrutiny of the Balance Sheet and the New Homes Bonus. These will benefit the corporate contingency and provide more financial resilience against other risks and uncertainties.

8. 2013/14 Risks and Budget Robustness

8.1 We adopt a thorough, rigorous and proactive approach to financial risk management. This is undertaken through routine monthly financial reporting, whereby Service Areas are required to identify risks and corresponding mitigating strategies/opportunities and as part of Budget setting. Service Areas are tasked with quarterly risk assessments in order to refresh risks for the

current year and following financial year. All risks are categorised as “Red” or “Amber” dependent on likeliness of their eventuality. In 2012/13, a limited corporate provision was held for “Red” risks, with no provision for “Amber” risks. All risks have been managed with this provision. We will be undertaking a similar strategy to risk management in 2013/14 which proved very successful in containing risks in 2012/13.

8.2 Despite significant funding reductions to Local Authorities since 2011/12, we have managed to increase the Council’s financial resilience and this is reflected in balanced budgets which include builds to Reserves over the last 3 years. Critical to this success has been the delivery of major change projects/programmes of £84M over the last 2 financial years.

8.3 Further reductions will be required over next 3 years. However, with improved Reserves the financial resilience of the Council is better placed to deal with future financial challenges. On this basis the Council’s 2013/14 budget is considered to be robust.

8.4 The robustness is underpinned by best practice financial management continuous improvement initiatives. In 2011/12 we commenced the process of a complete reorganisation of the Finance operating model through “Finance Foundations” to build capacity and introduce efficiencies through streamlined financial processes. In 2012/13 we continued the journey through “Forging Finance” and the Westminster Finance Academy via an extensive programme of commercial and technical capability building for Finance staff and the wider organisation. In parallel, we continue to review our structure and processes in order to ensure we deliver added value to our customers.

8.5 In 2012/13 we also successfully procured our third party supplier of back-office functions for the Managed Services Programme on a Tri-Borough basis. This is a significant change programme which will deliver substantial cost reduction opportunities over the coming 2 years and beyond.

9. Revenue Budget for 2014/15

9.1 Headline 2014/15 budgets have been published in this Council Tax Report. The Local Government Finance Settlement has indicated a reduction to government funding in the order of £19M (excluding the impacts of inflation) however full details have not been provided. This reduction excludes any inflationary impact expected to be c£4M-£6M year-on-year.

9.2 As per 2013/14, risks in Housing and significant procurements such as the Customer Programme, the Athena Managed Services Programme and the Total Facilities Management Programme all make significant contributions. This will be determined as the year progresses and how risks play out over key issues such as NNDR.

10. Financial Outlook for 2015/16

10.1 The Financial Settlement did not provide any information on the position for 2015/16. Indications of reductions were given at the time of the CSR and were confirmed in the Autumn Statement however the precise quantum is currently unknown.

11. 2012/13 Capital Expenditure

11.1 The Council's policy is to meet the cost of Capital expenditure through grants, third party funding and its own Capital receipts.

11.2 There is in place a robust process for the review of Capital expenditure. The Capital Review Group consisting of Members and Officers meets quarterly. This forum considers the strategic priorities for Capital, alignment with Revenue expenditure and approval of individual Capital schemes within agreed budgets and planning totals. Over the year this process has enabled the Council to exert greater control and challenge of expenditure and more effectively manage its Capital resources allowing scope for development of the Capital requirements. This has enabled the Council to retain tighter control over the entirety of the rolling programme.

11.3 There is a rolling programme of Capital works over the five year period from 2010/11 to 2014/15. The Council anticipates Capital receipts of £252M and expenditure of £152M. For 2012/13 net Capital expenditure is projected at £28M, which is within the budget for the year. The difference will fund the future Capital programme and pay for the deficit from earlier years by way of creation of a Capital Reserve.

11.4 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 - £18M
- Marylebone Library - £13M
- Leicester Square Redesign - £9M
- Lighting Improvements - £9M
- City Hall - £6M
- Footway Programmed Maintenance - £3M
- Waste Disposal Plant Improvements - £3M
- Piccadilly 2 Way - £2M

11.5 The Capital programme extends to 2016/17 which is reflected in **Schedule 11.** At this stage this is purely for planning purposes as the programme requires Member and Officer consideration and approval.

12. Capital Budgets - 2013/14 and 2014/15

12.1 The Capital budget for 2013/14 is £30.8M (but with the potential slippage from 2012/13 of a further £4.2M) and for is 2014/15 £37.2M. Details of these are set out in **Schedule 11.**

13. Key Legislative and Policy Initiatives

13.1 In last year's Council Tax Report we identified a number of medium-term financial uncertainties at various stages of implementation or consideration which could have material impacts on the Council's activities with potentially significant financial consequences. Below is an update of those which were identified in last year's report and new arrangements which could have a cost or income impact from 2013/14 onwards.

13.2 New Policy Initiatives

a) Changes to Funding Arrangements

The implementation of Business Rate Localisation arrangements from 2013/14 radically alters the way in which Formula Funding is distributed. Rather than Formula Funding being fully distributed via RSG, 40% for Westminster has been incorporated into Business Rate income targets. Depending on the level of Business Rate growth, Westminster will either have a shortfall or surplus. Given the unprecedented high level of outstanding appeals against business rates, we foresee up to 14% of the 2013/14 net business rate income needing to be set aside to provide for successful appeals (some dating back to 2010 and indeed to 2005). Safety Net arrangements mean that the maximum shortfall on this funding for Westminster in 2013/14 will be c£6M.

Overall, RSG has changed from £173.6M to £197.6M – a headline increase of £24M. However, this figure includes £6.4M of net reductions against the 2012/13 equivalent figure and £30.5M of previously specific grants paid directly to services, now being incorporated into the RSG figure. A damping grant of c£30M has been crucial in protecting the Council from even higher funding reductions.

b) NNDR/Business Rates Localisation

The responsibility for Business Rate income has been localised to Local Authorities starting in 2013/14. Rather than acting as the Government's agent (transferring NNDR receipts into a national pool), Local Authorities are now accountable for collecting this income, and take a share of any surplus or deficit on the actual amounts collected compared to the expected (baseline) amount. Given the extraordinary levels of outstanding appeals, we expect that in the first year of the new scheme Westminster could lose £52.4M of funding because of this change. Safety Net payments of £46.5M will limit this shortfall to a maximum of c£6M.

c) Universal Credit

The Government is planning a phased implementation of Universal Credit with effect from 1 October 2013. Details of the Government's phasing arrangements to 2017 when all benefit claimants will be in receipt of Universal Credit are still unknown. It is envisaged that very few of Westminster's current housing benefit claimants will be moving to Universal Credit in 2013/14. There should be no direct financial implications for the Council in relation to the move to Universal Credit in 2013/14.

13.3 <u>Update on 2012 Policy Initiatives</u>

In addition to the new policy initiatives identified above, we have provided an update on those identified in the 2012 Council Tax Report.

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

As indicated in last year's report, there were no direct financial implications resulting from the introduction of the Local Housing Allowance (LHA) caps. The majority of the Government's allocation of Discretionary Housing Payments (DHP) of £3.7M for 2012/13 (together with the carry forward figure of £0.7M) is on schedule to be utilised by year end.

Although there are no direct financial implications in terms of the Benefit service, there has been, as suggested in last year's report, an increase in costs associated with the provision of Temporary Accommodation within Housing.

b) Council Tax Benefit Reform & Legislation Changes

All Local Authorities have had to produce a Council Tax Reduction scheme to replace Council Tax Benefit with effect from 1 April 2013. Central Government is providing a grant for 90% funding of the Council's existing expenditure on Council Tax Benefit.

At the Council meeting on 23rd January, it was determined that the Council would absorb the 10% funding reduction to ensure that the Council's benefit claimant's did not have to receive a reduction in their benefit entitlement. This means that there is a funding shortfall of £540,000. At the same Council meeting, it was determined that the Council would change the level of its Council Tax discounts for second homes and empty properties. The additional Council Tax income generated from these changes will meet the additional cost resulting from the introduction of the Council's Council Tax Reduction scheme.

c) Olympics

The London 2012 Olympic and Paralympic Games have been considered among the most successful ever, with the important contribution of the Council being recognised by spectators, athletes, the International Olympic Committee, the International Paralympic Committee and the media.

The key achievements of the Council during this exceptional period were: its key role in the multi-agency planning which delivered a safe and notably

successful Games and the management of the City in a way which minimised the disruptive effects of the Games on our residents, businesses and visitors. There were also notable successes at a more local or service-specific level, including the effectiveness of the additional resources invested in planning enforcement in reducing short-term lets and housing benefit fraud; the success of the new 'marshalling' approach to traffic management; an exceptionally successful programme of engagement and communication to ensure staff and public were fully prepared; high standards of street cleansing; and the full recovery of our Games-related costs.

The Council's additional costs relating to the Games have been fully covered by means of cost reimbursement agreements with the GLA, TfL, the London Organising Committee of the Olympic and Paralympic Games and the Olympic Delivery Authority. Although there was some impact on parking and commercial waste income during the period immediately before, during and after the Games, this was within forecasting margins. The London 2012 Games therefore had no adverse financial impact on the Council.

d) Community Budgets

The Tri-Borough Authorities were successful in becoming one of four national pilots to work in collaboration with Central Government to develop 'whole place' Community Budget proposals by the end of October 2012. The other three pilot areas were Greater Manchester, Cheshire West and Chester, and Essex.

The aim of the Tri-Borough Community budget pilot was to work closely with Central Government and a range of local partners to explore new ways to tackle complex social and economic issues that cross geographical and organisational boundaries by reducing dependency and promoting economic opportunities for people and place.

The result is a set of pragmatic proposals that go with the grain of national policy, through support from central government to continue the collaboration. In 3-5 years our proposals could deliver up to £70M net savings to public services across Tri-Borough.

e) Localism Act

The Localism Act seeks to deliver not only new freedoms and flexibilities for Local Government, but also additional responsibilities and duties alongside new rights and powers for local communities, which could place greater pressure on financial resources. Although the Localism Act was finally passed in November 2011 it has been enacted in parts, through the publication of supporting regulations throughout 2012.

Power of Competence - 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.

Neighbourhood Planning - The Neighbourhood Planning Regulations came into force on 6th April 2012 and enable communities the opportunity to develop statutory neighbourhood planning policies (produce a 'Neighbourhood Plan') that will become part of the planning framework for their area. To be able to undertake neighbourhood planning a local community group has to firstly apply to designate a 'neighbourhood area', and then secondly apply to be designated as the neighbourhood forum. To date, the Council has received 13 neighbourhood area applications whilst new neighbourhood area applications are anticipated in other parts of Westminster (for example Churchill Gardens Estate). The Council has a legal 'duty to support' the neighbourhood planning process and will therefore have to deal with neighbourhood area and forum applications, as well as fund various stages of neighbourhood plan production, including the 'examination in public' and neighbourhood plan 'referendum'.

The Localism Act (2011) requires Community Infrastructure Levy (CIL) charging Authorities to pass a proportion of receipts arising from development to the neighbourhoods where development takes place. The proportion that will be passed on has not yet been set in the CIL regulations, due in spring 2013. However, it is understood that neighbourhood forums with a completed neighbourhood plan will be allocated 25% of the CIL charged on new developments in their area. Neighbourhoods without a neighbourhood plan will be allocated a 15% share of the revenue from development in their area, but this will be capped at £100 per council tax dwelling. The Council will still formally spend the money on behalf of the neighbourhood forum.

Community Right to Challenge - The Act also introduced a 'Community Right to Challenge' which provides communities with the opportunity to bid to take over the running of services in their area.

The community right to challenge formally came into force on 27th June 2012 and is supported by two sets of regulations – the Community Right to Challenge (Fire and Rescue Authorities and Rejection of Expressions of Interest) Regulations 2012, and the Community Right to Challenge (Expressions of interest and excluded services) Regulations 2012. The Council will be able to set out how expressions can be received, for example whether they are acceptable throughout the year, or only within a limited time period.

Community Right to Bid - The Assets of Community Regulations formally came into force on 21st September 2012. Together with the relevant section of the Localism Act (Part 5 Chapter 3), the 'Community Right to Bid' scheme operates in two main parts: the requirement for local authorities to maintain a list of assets of community value which have been nominated by the local community; and the opportunity for community groups to develop a bid to buy the listed asset (when it is available for sale).

The legal provisions do not restrict who the owner of a listed asset can sell their property to, or at what price. They also do not confer a right of first refusal to community groups. The provisions do not place any restriction on what an owner can do with their property, once listed, if it remains in their ownership. Owners of assets (other than public bodies) will be entitled to claim compensation for loss of expense incurred as a result of listing and complying with procedures.

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 2% 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 planning fees based on commercial rates.

f) 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 2,327 households in such TA (an increase of 570 on this time last year), c60% 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 with transitional arrangements for pre-April 2011 claimants which ended in December 2012. The new regime sets maximum levels of Housing Benefit receivable based on property size. There were 4,100 private sector households affected during 2012. Westminster received additional Homelessness Prevention Grant of £0.9M in 2012/13 in order to manage and mitigate the impact of these changes on numbers of households vulnerable to homelessness and potentially requiring TA. This has been reduced by £0.3M in 2013/14. In addition Discretionary Housing Payments (DHP) funding continues to increase up from £3.7M to

£5.2M in 2013/14. 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 Councils 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 will continue with new claimants migrating to Universal Credit and existing clients transitioning in future years.

g) 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 3 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 c19% of payroll. The next actuarial valuation will be carried out for 31 March 2013 with the results known during 2013/14.

Given the performance of the Capital markets, continued low interest rates, 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 proposals made by Lord Hutton in his review of public sector pensions. Whilst the impact of these proposals will take effect from 31 March 2014, CLG aim for the proposals to be agreed and in place by 31 March 2013 so they can be taken account of in the actuarial valuation. Taking all things into account and given capital market changes, it is not thought that the proposals will have a material change on the Fund's liability valuation.

Westminster is implementing auto-enrolment procedures for its Pension Fund in July 2013. From this date, all staff not currently in the pension scheme will be automatically enrolled. As the employer we would need to make employer contributions to the pension fund for these newly enrolled staff. Staff have the option to opt out again of the pension scheme, and if this is done within three months of enrolment date, contribution monies would need to be refunded from the pension fund to employer and employee respectively. At present, the Council estimates that there are approximately 500 staff who are not currently members of the scheme, but there are no reliable forecasts for how many would opt out of the scheme.

14. Reserves Policy

14.1 In the 2012 Council Tax Report we indicated the Council's General Reserves level would ideally be in the range of £30M-£40M reflecting the volatility of costs and income of a Council operating in the heart of a global City. We have made significant progress towards achieving this target.

14.2 We plan to continue to adopt this strategy. We anticipate an increase in the Reserves level from the 2011/12 Closing Reserves of £22.1M. The final level is dependent on how the financial picture emerges in the last 2 months of the year. The Reserves position is heavily impacted by the need to provide for future NNDR volatility.

14.3 Over the medium-term we will be monitoring risks closely as NNDR uncertainties and the major change programmes commence delivering benefits.

14.4 In addition to General Reserves, Earmarked Reserves of £43.7M (£36M of Earmarked Reserves and £7.7M of Ring-fenced Reserves) in 2013/14 (excluding Schools and HRA) have been set aside for specific purposes as detailed in **Section 17** and **Schedule 6**. We will determine if Earmarked Reserves need to be augmented for NNDR funding challenges over the last 2 months of 2012/13.

15. Cash and Financing

15.1 The Treasury Management Strategy is presented for approval at 25th February 2013 Cabinet meeting with the Budget and Council Tax Report. It sets out Westminster's position on the management of cash and borrowings.

15.2 It provides routine updates on the financing position and seeks the continued use of investment options that have been used in the current financial year, 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 are managed on a notionally separate basis.

15.3 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.

15.4 It is not planned for there to be further borrowing in 2013/14 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 and use of HRA Reserves.

16. Council Tax

16.1 The proposed Budget set out in this report allows for the average Band D Council Tax charge to remain unaltered at **£377.80** – and would mean it has stayed at this level for the seventh consecutive year. For 2012/13, residents paid the second lowest amount in overall Council Tax in the country.

16.2 This stability in the amount residents pay will come in a year when the technical administration of the Council Tax scheme has seen considerable change. Council Tax Benefit Localisation has seen charges for those residents on Council Tax Benefits removed from the determination of the Tax base altogether and funding for these benefits from Central Government cut by 10%. Other key changes include alterations to the ability to grant discounts for empty and second homes.

16.3 As in prior years, despite keeping the Council Tax at the same level, the overall income receivable has grown slightly due to the underlying growth in the Council Tax base.

16.4 A summary of the changes to the amounts receivable from the Council Tax is set out below:

	Tax Base *(No.)*	Band D Amount *(£)*	Total Receipts *(£,000's)*
2012/13 Council Tax	**131,409**	**377.80**	**49,646**
Second Homes Discount Changes	979		370
Empty Property Discount Changes	2,303		870
Council Tax Benefit Localisation	(17,448)		(6,592)
Organic Growth in Taxbase	953		360
2013/14 Council Tax	**118,196**	**377.80**	**44,654**

16.5 Council Tax Localisation has effectively taken the income from benefit claimants out of the Council Tax receipts – this, less 10% reduction in funding, has been replaced by a grant. For this reason Council Tax total receipts appear to fall in the above table.

16.6 **Schedule 9** of this report sets out the expenditure by Portfolio on which the above Council Tax amount is spent.

17. Provisions, Contingencies and Earmarked Reserves

17.1 The Council is projecting to maintain or strengthen General Fund Reserves over the next 2-3 years to provide financial resilience against a number of uncertainties such as NNDR volatility. The extent of the increase to Reserves will be determined once the performance of the Council has become clearer over the last 2 months of the financial year.

17.2 In addition to the General Fund Reserves, there are a number of designated reserves which have been established for specific purposes and which will be utilised in the short to medium-term.

17.3 These designated Reserves can be split into 2 categories: Earmarked Reserves, which are used to meet short-term needs, are expected to stand at £36M at the 31st March 2013. Ring-fenced Reserves, which cannot be accessed by the Council other than for specified purposes, are projected to be £7.7M at the 31st March 2013. Details are provided in **Schedule 6**.

17.4 Historically, the Council carried a central contingency within the budget for risk management; this provided some "buffer" to protect Reserves against cost pressures, risks and unforeseen events. In 2011/12 it was clearly established that Service Areas were wholly responsible for risk mitigation in their functions. During 2012/13 the containment of risks and costs continued to rest firmly with Service Areas. For 2013/14 the approach remains unchanged.

18. Schools

18.1 Dedicated Schools Grant (DSG)

18.1.1 Schools are funded primarily via the ring-fenced DSG and thus Council Tax income is not used to fund schools related expenditure (apart from Capital financing).

18.1.2 From 2013/14 the DSG will consist of three separate blocks of funding: the Schools' Block, High Needs' Block and Early Years' Block. Although each of the separate blocks are not separately ring-fenced, the DSG overall will continue to be ring-fenced.

18.1.3 The Department for Education's (DfE) Schools' Funding Reform has required many changes to the DSG and the way in which schools are funded, these include:

- The introduction of a new School Funding Formula comprising of a limited number of factors and using data that comes directly from the DfE;
- A change from funding based on January pupil numbers to October pupil numbers;
- The delegation of some budgets that were centrally held;

- The ending of Schools Block Local Authority Central Spend Expenditure Grant (LACSEG) which was previously deducted from Local Authorities and paid across to academies;
- The end of inter-authority recoupment for pupils with Special educational needs;
- Changes to the way in which special schools, pupil referral units and Special units attached to mainstream schools are funded; and
- New regulations pertaining to Schools Forums.

18.1.4 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.

18.2 Pupil Premium

18.2.1 Pupil Premium will increase from £623 in 2012/13 to £900 in 2013/14 per FSM6 pupil (FSM6 refers to a child that has been entitled to a free school meal at any point in the past six years).

18.2.2 There is also a Pupil Premium for looked after children and service children (children of parents who are in the armed forces).

18.3 Academies/"Free Schools"

18.3.1 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).

19. Housing Revenue Account (HRA)

19.1 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.

19.2 It accounts for the management and maintenance of 12,200 units of social housing and 9,000 leaseholders within Westminster. The HRA itself is required to set a balanced budget and must not go into deficit, after taking account of HRA Reserves.

19.3 In 2012 the HRA moved from a national subsidy system of financing to one of Self-Financing. In order to facilitate this the Council was required to buy out of the subsidy system through taking on £68M of extra borrowing within the HRA, but in return gets to keep all future rental income.

19.4 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 needs of the stock estimated at £1.3BN. The contract with CWH is currently in the process of being re-let for a period up to 10 years following positive resident consultation.

19.5 The Government continues to control rent levels and rent increases through Rent Rebate Subsidy Limitation. This mechanism limits the amount of eligible housing benefit payable if average rent increases by a Local Authority exceed Government determined limits. The presumption underlying Self-Financing is that in the long run social rents will continue to increase by RPI+1/2%. Self-Financing presents the Local Authority with a number of uncertainties and risks that will need to be monitored and actively managed. These include the impact of Right to Buy proposals, interest rate risk, and the impact of welfare reform on future changes to housing benefit collection/payment.

19.6 There are significant positive benefits of Self-Financing including the ability to adopt a more strategic planning horizon, to engage in more commercially focused active asset management approaches, and the ability to make significant improvements in the procurement process. The Council is currently exploring the flexibilities and freedoms that these changes present to benefit the Council as a whole and to grow the HRA.

19.7 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 a programme of Capital investment of £208M over the next 5 years. It also has a degree of additional headroom that will enable it to cashflow and finance the approved future regeneration schemes of existing housing estates, which are estimated to cost an additional £28M. The development of an ongoing active asset management strategy will also help to 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.

19.8 The HRA budget for 2013/14 to 2014/2015 is set out in **Schedule 12.**

20. Levies and Special Charges

20.1 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 3 bodies able to raise a levy on Westminster are: The London Pension Fund Authority; The Lee Valley Regional Park Authority; and the Environment Agency.

20.2 The London Pension Fund Authority has advised a £138k increase in the levy chargeable to Westminster City Council. At the time of writing, the other levies are yet to be confirmed.

20.3 The Montpelier Square Garden Committee raises a special charge to be collected from the local residents of that square in order to fund the maintenance of the garden square. The Committee has determined to raise a charge for 2013/14 of £32,500 – an increase of £4,500 over 2012/13.

21. Greater London Authority (GLA) Precept

21.1 The GLA raises part of its income by way of a Council Tax charge on the residents of the 33 Local Authorities within London. Rather than administering its own Council Tax billing system, the charges are raised by means of a precept on the demands of each of the London Boroughs.

21.2 The Mayor's budget is not scheduled to be finally determined until 25th February and thus final details cannot be included in this agenda item for dispatch. A verbal update will be provided on the night of the Cabinet meeting should the final budget differ from the initial draft proposals.

21.3 The Mayor's Draft budget proposes a reduction in the average Band D amount for the residents of all Boroughs (except the City of London that does not receive a charge for policing) from £306.72 to £303.00 – a reduction of £3.72 (1.21%). The total amount thus paid by Westminster residents will be £35.8M.

22. Consultation with the Community and Stakeholders

22.1 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 its budget proposals.

22.2 A summary of the Council's 2013/14 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 2012 two-year budget setting process. A link to that agenda item was also included on the web page.

22.3 The Council received 1 response to the consultation exercise it undertook with the local business community. The New West End Company responded that it opposed the policy of seeking to raise income for the Council by the use of additional banners and street dressings in Oxford Street and its environs. At the very least the organisation would wish the period between 1st November and 6th January to be unavailable for the sale of such signage and that the proceeds from initiative to be invested in Council services of a direct benefit to the West End.

23. The Scrutiny Process

23.1 The Westminster Commission agreed at its meeting held on 3rd July 2007 to set up a Budget and Performance Task Group as a Standing Task Group, with the following terms of reference:

23.2 *"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."*

23.3 These terms of reference were agreed by the current Budget and Performance Task Group at their first meeting on 24th January 2013. The Budget and Performance Task Group, chaired by Cllr Michael Brahams, reports to the Housing, Finance and Customer Services P&S Committee chaired by Cllr Andrew Havery.

23.4 **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.**

First Budget Scrutiny Meeting

23.5 The first meeting established the group's membership, the programme of work and corresponding timetable, whilst assessing the overarching 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. There was an initial discussion on the Local Government Finance Settlement (LGFS), which was reported to be delivered late, difficult to assess and was confusing for most Local Authorities. The LGFS was issued with a number of errors and missing data. It was reported that damping played a positive role for Westminster this year. However there was an inevitable impact of the Census outturn and a lesser emphasis on relative need and population sparcity. Business Rates Localisation has added additional complexity and with specific grants rolled into formula funding and there is likely to be a net downside.

23.6 After examining the headline trends, the Deputy Director, Corporate Finance outlined Westminster's 2013/14 budget strategy and approach. There were savings to be made across all Service Areas to help bridge the financial gap.

It was reported that there are £8M 'Red risks' and £16M 'Amber risks' and the Council plans to hold a limited corporate contingency against these risks in 2013/14.

23.7 **Members asked overarching questions about the anticipated level of Reserves held at year-end, the growth levels in the European Union, New Homes Bonus, emergency accommodation costs and the risks associated with the level of provision for the level of 'Amber risks' identified.**

23.8 After examining the overarching budget context, the meeting assessed Service Areas including: Housing, Corporate Property, Children's Services, Libraries and Culture, Sports and Leisure and Built Environment.

23.9 Each Chief Officer and Finance lead presented key areas of risk, how the Service Area would meet the budget challenge, and the impact on the services delivered.

23.10 In relation to the **Housing** Service Area, there were discussions on how confident the department would be in terms of the level of savings proposals, the high level of emergency accommodation costs and the financial impact of negotiated properties out-of-Borough. Members also questioned Officers on the levels of risk associated with national legislation.

23.11 With regards to **Corporate Property**, the group queried the future re-stacking of City Hall, the pressure on the savings proposals, the confidence in the anticipated end-of-year position, the limits and extent of asset utilisation, the level of last year's year-end position and technological innovation in reducing energy costs.

23.12 When discussing **Children's Services,** the Budget Scrutiny Group challenged officers on the proportion of Tri-Borough savings which were Westminster-specific savings, the confidence in achieving the savings proposals identified, the relative level of statemented children in Westminster, the future of sovereign Family Services, the anticipated timings of Tri-Borough savings (i.e. whether frontloaded) and the expectations of savings in years 3 and 4 of the Tri-Borough project.

23.13 Relating to **Libraries and Culture**, the Task Group asked about the future levels of Registrar's income associated with the relocation of the service, the level of financial risk associated with upcoming changes, the scale of the savings proposal relating to arts projects, the income from citizenship ceremonies and the reported drop in library services income.

23.14 When assessing **Sports and Leisure,** Members discussed the income generating opportunities associated with the geography of Westminster facilities, the operator costs for the provider, the balance of risks in contracted-out services, the challenges associated with the quality of the estate and an assessment of the reported expectation of becoming cost neutral to the Council.

23.15 Relating to **Built Environment**, the Task Group challenged officers on fees for planning, the impact of national legislation on planning, the risks associated with the proposals to allow quicker conversion of office-space into residential-space, the level of affordable housing and the local targets set for the department.

Second Budget Scrutiny Meeting

23.16 The group met for a second time on Wednesday 30th January 2013.

In relation to the **Finance and Operations** paper presented to Members, the Group questioned the Chief Operating Officer on the Athena Managed Services Programme, IT issues across the Tri-Borough area, the impact of savings upon staffing, audit contracts in place, the confidence in the savings targets, the quality of management accounting, the frequency of monitoring and the success associated with the 'challenge sessions' across Service Areas.

23.17 When assessing **the Chief Executive's Portfolio,** the Task Group queried the reported exceptionalism of some Service Areas, the relative level of savings proposals compared to other areas and confidence in achieving these, the absolute level of advertising income, the level of contract staff, the future direction of income generation (including special projects), potential *additional* sources of income, the need for assessing whether the Council had an appropriate '*culture of income generation*' in each Service Area and the number and range of special events.

23.18 When examining **Adult Services,** Members assessed the Transportation Strategy with Children's Services across Tri-Borough, the reasons behind the underspend in the area, the assessment of customer experience in relation to savings, the national picture in terms of the future funding of social care, the number of different stakeholders involved in some domiciliary care and the levels of administration behind personalisation.

23.19 With regards to **City Management**, the Task Group queried the sustainability of the reinstatement of some proactive cleansing services, licensing fees, the risks associated with a current legal challenge relating to the Local Government Miscellaneous Provisions Act 1982, the levels and capacity for enforcement, road management, waste tonnage expectations, recycling savings, the provision of residential bins, the Tri-Borough waste contracts, Olympic funding, the scale of income generation and the risks associated with the outcomes from the West End Commission.

23.20 When discussing **Parking Services**, Members challenged Officers on the impact of the London Olympics, the competitiveness of the market for future re-lets, the impact and costs of technological advances in enforcement, parking permits and the risks associated in the reduction of enforcement officers.

23.21 The Chairman of the Budget and Performance Task Group also requested a special paper to be presented on **Capital Spending and Slippage**, the Group queried officers about the costs of Capital slippage, the anticipated Capital receipts in 2015/16 and 2016/17, the reasons for underspends across Service

Areas, the Fixed Asset Register and the immediate expectations in 12, 15 and 18 months.

23.22 On 25th February 2013 the Task Group discussions will be presented to Cabinet for consideration. **Cllr Michael Brahams**, the Chair of the Budget and Performance Task Group, will attend to present this section of the report**.** Task Group meeting notes are included as **Annex B**.

24. Legal implications

24.1 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.

24.2 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.

24.3 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.

24.4 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.

24.5 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.

24.6 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.

24.7 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.

24.8 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.

24.9 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.

24.10 Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. This is addressed in Section 25 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.

24.11 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.

24.12 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.

25. Equalities implications

25.1 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 protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief and sexual orientation.

25.2 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.

25.3 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.

25.4 An Equality Impact Assessment on the budget proposals is set out in **Annex C.** A number of proposals are shown to have a positive impact, including improved accessibility of kerbside for people with physical disabilities as a result of some parking changes. Ongoing assessment and development of mitigating actions will continue throughout the implementation of this second year savings programme.

25.5 Many of the budget proposals included under the Adults portfolio are not expected to lead to any depreciation of the service, and in some cases improve the service available to, for instance, older people and disabled people, who represent a large proportion of those in receipt of social care services are expected to benefit from the moves towards integrated care management.

24.6 The budget proposals have the potential to have a minimal overall effect on disabled people due to mitigating actions associated with some measures and positive impacts from others.

25.7 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 in the education general fund. In relation to the changes to the Housing budget, these too are expected to impact upon BME households disproportionately because this group tends to make up a larger proportion of the households in Westminster in housing need, as compared with the overall population. Mitigating actions in this regard include a revised policy on Discretionary Housing Payments. Meanwhile, other housing proposals, such as longer term leasing of temporary accommodation and rebalancing budgets through the decommissioning of services no longer fit for purpose should lead to an overall improvement in the services available to those in housing need.

25.8 The likely impact on religion or belief, sexual orientation or gender/gender reassignment/pregnancy & maternity/marriage or civil partnership is negligible.

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 Budget and Performance Task Group meeting notes
B Council Tax Resolution
C Equalities Impact Assessment

Background Papers

Budget and Council Tax Report 2010/11 25 February 2012

Council Meeting and Agenda of 7 March 2012

Report to Cabinet Treasury Management Statement 25 February 2012

Report to Audit and Performance Committee on 6 of February 2013

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.