



City of Westminster

Comprehensive Spending Review – Policy  
Implications

Report of the Strategic Director of Finance &  
Performance

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## **1. Introduction and purpose of this briefing**

- 1.1 The Chancellor of the Exchequer announced the Spending Review on 20<sup>th</sup> October 2010, setting out how the Government intends to achieve the reduction in the UK's deficit in the four years from 2011-12 to 2014-15.
- 1.2 This briefing provides a high level analysis of the implications of the Spending Review for Westminster. It is important to note that the information released by the Government so far is sketchy and the full detail will not be known until the Local Government Financial Settlement is announced in mid-December. Further modelling will be undertaken as more detailed information becomes available.

## **Policy implications by Policy & Scrutiny portfolio**

### **2. Finance and Resources**

#### **2.1 Formula grant**

The Spending Review announced an annual reduction in grant to councils of 7.25% over the next four years. Until the Local Government Settlement is announced (anticipated for second week in December) it is impossible to accurately set out the profile of cuts being made. The Finance department are working up the budget preparation under various scenarios to share with Cabinet at the beginning of December.

#### **2.2 Specific grants**

Of the £93m specific grants that Westminster has budgeted to receive this year from central Government, a number are being consolidated into the formula funding model, effectively removing ring fencing and allowing them to be used to fund general expenditure. It is worth noting that Westminster has already had its specific grants cut by £6m as part of the Emergency Budget (£3m Local Area Agreement reward grant and £3m other grants). Nationally, a total of £4.4bn will be removed as specific grants and added to the formula funding model by 2014-15. The number of specific grants being given to local authorities is being reduced from ninety to ten.

#### **2.3 Revenue Support Grant**

The £4.4bn specific grants added to the formula funding arrangements will increase the amounts distributable as Revenue Support Grant. The Revenue Support Grant is a particularly complex formula-driven allocation method and the additional £4bn added to the pot could be used in a number of different ways. Further detail is awaited to give a clear understanding of the impact on Westminster.

#### **2.4 Council Tax funding**

Councils will receive funding equivalent to 2.5% of council tax in 2011-12 if they commit to freezing the council tax in 2011-12. Funding will only be available to fund the tax freeze in 2011-13; however, supplementary funding will be available to local authorities

over the next three years through specific grants to compensate for the loss of income during the period of the freeze.

#### **2.5 Council Tax Benefit administration**

There is little information available but the Government has confirmed that Council Tax Benefit will be administered by local authorities outside the new Universal Credit. The scheme will be localised which suggests that councils will be able to set up their own scheme within central Government parameters. It has also been suggested that the Government will cut the Benefits Administration Grant by 26% over four years to match the same percentage reduction in the Department for Work and Pensions administration budget. Further clarification will be sought on this issue.

#### **2.6 Devolution of Communities & Local Government funding**

In the Spending Review, Government announced that £1.6bn of Communities and Local Government funding would be devolved to local authorities. It is currently unclear what funding streams are included and what the precise impact on Westminster will be.

#### **2.7 £200m Capitalisation Fund**

The Government also announced a £200m capitalisation fund for 2011-12 to support councils to accelerate local public service reform. This will primarily be used to fund redundancy costs.

#### **2.8 Capital**

Capital funding from all departments to local government will reduce by approximately 45% over the Spending Review period. In addition, as part of the CSR announcement, the rate at which the Public Works Loans Board will lend to local authorities was increased from 0.2% above gilt rates to 1%. This will add a significant amount to the council's borrowing costs.

### **3. Built Environment, Business, Enterprise and Skills**

#### **3.1 Regional Growth Fund**

A £1.4bn Regional Growth Fund has been announced to stimulate enterprise, particularly in areas that are heavily dependent on the public sector. All regions in England are eligible to bid. The first round of bidding is open and will close on 21 January. Bids can be for individual projects, a package of projects or a programme of activity but must be for a minimum of £1m and come from the private sector or public/private partnership. Local Enterprise Partnerships (LEPs) will be expected to play a role in co-ordinating and assisting bids for their area. The GLA has proposed establishing a "super LEP" across London boroughs and is currently consulting on this.

#### **3.2 Tax Incremental Financing**

Tax Incremental Finance powers have been introduced which will allow councils to fund key projects by borrowing against future increases in locally collected business rates,

although, at least initially, councils will have to bid to central government to limit the borrowing risks associated with the scheme.

### 3.3 **Olympics**

The Spending Review protects the public sector funding package at £9.3bn. The council will continue to lobby Government to recognise Westminster's unique status as the central London host borough and to provide additional funding to enable the City Council to achieve full cost recovery for core services that will additionally impacted during the Olympic period including cleansing, licensing, parking and trading standards.

### 3.4 **Welfare budget cuts**

The Spending Review announced an additional £7bn in welfare budget cuts to be delivered through a new time limit to incapacity benefit claimants and changes to jobseeker's allowance, housing benefit, council tax benefit, pension credit and family tax credits. Arguably the most significant element of this announcement for Westminster is that job seekers migrated from Incapacity Benefit onto Employment Support Allowance and assessed as capable of finding work will have 12 months in which to get a job. It is anticipated that 2,500 residents in Westminster currently on Incapacity Benefit will be migrated off IB and onto JSA in the next two years as a consequence of this and that this is likely to increase demand for the council's Westminster Works programme.

### 3.5 **Train to Gain**

The Government announced the closure of the Train to Gain programme to lower the cost of the Further Education system. A greater proportion of future funding for skills and qualifications will be sourced from individuals and employers through student loans and increased employer contributions such as voluntary training levies. Westminster welcomes the focus on employer-led training programmes (SMEs) and employers providing a larger share of funding for skills. Westminster is well placed with relationships with employers, the London Apprenticeship Company and FE colleges to assist employers in taking a lead in skills provision.

### 3.6 **Increase in adult apprenticeship funding**

The Spending Review outlined an increase of £250 million a year for adult apprenticeships by the end of the CSR period. This announcement is relative to the level of spending inherited from the previous Government: that is, likely to include the redeployment of £150m from Train to Gain funding into adult apprenticeships to create 50,000 more apprenticeship places that was announced in May 2010. Additional places for 19+ yrs apprenticeships is welcomed and will help to fulfil rising demand of older people entering apprenticeships.

### 3.7 **Extension of the Enterprise Finance Guarantee scheme**

To ensure that small businesses have access to the finance they need for working capital and for growth, additional lending will be made available over the Spending

Review period. Funding will also be made available to provide equity finance for small businesses with growth potential.

### **3.8 £860m for renewable heat measures**

£860m new funding will be provided over the Spending Review period to support households and businesses investing in renewable heat measures. Further detail will be sought on how this funding can be accessed by Westminster's residents and businesses.

## **4. Children and Young People**

### **4.1 Schools budget and the "Pupil Premium"**

There will be real term increases of 0.1% in each year of the Spending Review for the 5 to 16s school budget, including a £2.5 billion "Pupil Premium". Underlying per pupil funding will be maintained in cash terms. It is not clear at this stage whether this is new funding or replacing some other grants that may be lost (for example 1 to 1 tuition grants). Further detail is expected in the Education White Paper next year on whether the local authority will continue to have statutory obligations around the universal provision of education or whether our responsibilities will be narrowed down to focus on those most in need.

### **4.2 Early years education and care**

The Government announced that it would be extending 15 hours a week of early years education and care to all disadvantaged two year olds from 2012-13, and maintaining the universal entitlement to 15 hours for all three and four year olds.

### **4.3 Sure Start**

The Spending Review confirmed that Sure Start services are to be maintained but with a renewed emphasis on their original purpose; that is, improving the life chances of disadvantaged children. There will also be new investment in Sure Start health visitors.

## **5. City Management and Transportation**

### **5.1 Home Office**

The Spending Review announced overall resource savings for the Home Office of 23% in real terms by 2014-15 including cuts to police spending of 14% and reductions in consultancy spend and overheads. It is likely that Safer Neighbourhood Teams will be restructured to cover larger geographical areas and that the recruitment of Police Community Support Officers will end. Their absence may result in stretched capacity across uniformed police officers in Westminster.

### **5.2 Ministry of Justice**

The Ministry of Justice was also subject to cuts which equate to a 23% reduction over 4 years, including a reduction of over 3,000 staff in prisons and the probation service. This

is likely to impact upon the number of people who can be supervised within the community. These reductions should give greater weight to Westminster's proposal to implement a Payment by Results model for offenders.

### **5.3 Crossrail and London Underground**

Capital spending on Crossrail and London Underground was confirmed. Crossrail will be fully funded and £6bn will be spent on London Underground network improvements. The City Council will continue to work with Crossrail to mitigate the impacts of construction and on the detailed plans for individual stations to ensure that these support our strategic economic development, planning and transportation/public realm priorities.

### **5.4 National road schemes, maintenance and buses**

The Government confirmed that £10bn investment would be made in new road schemes and existing road maintenance. Direct bus subsidies will be reduced by 20% but statutory concessionary fares will remain.

### **5.6 Additional funding for local authority transport projects**

£560m will be provided for local authority transport projects outside London.

## **6. Housing and Community Services**

### **6.1 Affordable housing budget**

The affordable housing budget was reduced from £8.5bn to £4.4bn over four years. This will make it more difficult to deliver affordable housing in Westminster as grant has traditionally been required to mitigate the high costs of development. Less new housing supply could lead to an increase in the costs of providing temporary accommodation.

### **6.2 Housing Revenue Account reform**

More promisingly, the Government confirmed that the Housing Revenue Account will be reformed. Westminster hopes that this will enable the council to invest and maintain our stock at a Decent Homes Standard over the long term. However until the details of any self financing deal are revealed, the local impact is uncertain. In the meantime Westminster will remain within the current subsidy system for the next year and start to be a net payer into the National HRA subsidy system. The draft subsidy determination for 2011-12 is likely to be released in mid-November.

### **6.3 Rents for social housing tenants**

To compensate for the cut in funding for affordable housing development, it is the Government's intention to charge higher rents on some RSL properties. The City Council will need to work closely with RSL partners to ensure that Westminster households benefit from new units developed as there is potential for councils to have less control over how this revenue is spent. With around 350-400 new and relet RSL properties available each year, the financial benefits of charging higher rents will be incremental.

Before RSLs let on this basis they will also need to consider their charitable aims which may restrict them to only assisting low income households.

The major issue is the type of households that will be offered these higher rent properties. There is clear demand for intermediate rented properties in Westminster and our current product is popular. The change will provide a flexible tool to open up housing to middle income people and a better link between social and market rents. It will also help to provide more mobility in the sector. However, targeting households that can pay more could put further pressure on demand for social rented housing if supply is not maintained.

#### **6.4 Decent Homes**

Spending on Decent Homes is to continue, with an additional £2bn available over the Spending Review period. In addition, there will be £100m funding over the review period to address long-term empty properties. City West Homes has already met the Decent Homes standard and funding is likely to be targeted towards social landlords that haven't yet met the standard. The empty property grant may be useful but it will depend on the level of grant available.

#### **6.5 New Homes Bonus**

Overall housing supply is to be increased by introducing a New Homes Bonus from 2011/12 to provide incentives to local authorities to develop new homes through match funding Council Tax on new homes for six years. This could generate additional income, but average build levels in Westminster are low due to the lack of available land and high cost of development and so the Council is unlikely to benefit from this as much as other local authorities.

#### **6.6 Vulnerable people**

The Disabled Facilities Grant will be protected, rising with inflation. £6.5bn has been confirmed for the Supporting People Programme which represents a reduction of 12% over the next four years. The Homelessness grant has been protected and remains at £100m annually. The protection of the DFG and homelessness grants, together with lower than expected reductions to the Supporting People grant is welcome news for Westminster. As the Homelessness Grant is no longer ring fenced a robust case will have to be made to retain it for homelessness prevention. Currently the grant is used to fund Westminster's rough sleeper services and to deliver and sustain the reductions in numbers up to 2012, in line with targets in the London Housing Strategy.

#### **6.7 Big Society**

Funding for Big Society projects was confirmed including Community Organisers, a Community First Fund to support local and community organisations, and a pilot national citizen service, although the exact amount available to support the Big Society in local communities is unclear. Westminster has established principles for its local Big Society approach and these national schemes will complement this.

## 6.8 **Voluntary and community sector funding**

The Spending Review announced an additional £470m funding to the voluntary and community sector, although precise details of this are unclear. It was also confirmed that a £100 million transition fund would be available to provide support to those organisations delivering frontline services that stand to be affected in the short term by reductions in spending. The £100 million transition fund nationally is likely to be spread thinly given the high number of voluntary and community sector organisations currently delivering front-line services. It may provide some relief to Westminster groups who may be impacted by reductions in funding either stemming from the voluntary sector funding review and/or the fundamental service reviews.

## 7. **Society, Families and Adult Services**

### 7.1 **NHS spending**

As previously announced spending on the NHS will rise above inflation from £104bn in 2010/11 to £114bn in 2014/15.

### 7.2 **Public Health Grant**

The Public Health Grant is one of only two specific exceptions to the rule around removing ringfencing on all grants to local government. The grant represents a new source of funding for local government but further detail is awaited on the level of funding and any restrictions around its use.

### 7.3 **Additional funding**

The Government has announced an additional £1bn to both local authorities and the NHS to fund adult social care. Precise details of how this might be distributed (and the additional burdens that might be associated with it) are still unclear.

### 7.4 **Community budgets**

Community budgets, formerly known as Place Based Budgets, will be established in 16 local authority areas to pool departmental budgets for families with complex needs. Westminster has been confirmed as one of the prototype authorities for Community Budgets and will begin negotiating our funding settlement with Government departments over the next few weeks.

### 7.5 **Payment by Results**

Westminster has been lobbying Government to introduce a payment by results model to ensure that local authorities reap the benefits of implementing innovative, cost saving approaches such as Family Recovery. In the Spending Review, the Chancellor confirmed that payment by results would be introduced for prisons, probation and community health services.



7.6 **Benefits for older people**

The Spending Review confirmed that key benefits for older people would be maintained, including the Winter Fuel Allowance and concessionary travel.